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PAGE 01 OF 02 AMMAN 07776 00 OF 03 291930Z
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AMMAN 07776 00 OF 03 291930Z

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REA FOR FRANK HERBER

E.O. 12356: N/A
TAGS: NSPR, EFIN, JO
SUBJECT : BALANCE OF PAYMENTS IN 1967

REF: AMMAN 3557

1. SUMMARY. PRELIMINARY BALANCE OF PAYMENTS RESULTS FOR 1967 REVEAL A SHARP DETERIORATION IN JORDAN'S EXTERNAL POSITION. WORKERS REMITTANCES, THE MAINTENANCE OF JORDAN'S BALANCE OF PAYMENTS, FELL BY USD 247 MILLION TO DOLS 938 MILLION, THEIR LOWEST LEVEL SINCE 1973. OFFICIAL UNREQUITTED TRANSFERS, PREDOMINANTLY ARAB AID, FELL TO NEARLY DOLL 100 MILLION TO DOLS 500 MILLION, THEIR LOWEST LEVEL SINCE 1973. WHILE EXPORTS SHOWED HEALTHY GROWTH, THE TRADE GAP WIDENED BY USD 70 MILLION TO USD 1.7 BILLION, AS IMPORTS EXPANDED SHARPLY REVERSING A FOUR YEAR DOWNWARD TREND. THE NET RESULT OF THESE TRENDS WAS A SHARP INCREASE IN THE CURRENT ACCOUNT DEFICIT FROM DOLS 45 MILLION IN 1966 TO DOLS 349 MILLION IN 1967. THIS LEVEL IN THE CURRENT ACCOUNT DEFICIT, EQUIVALENT TO 6.3 PERCENT OF GNP, MARKS A RETURN TO LEVELS REGISTERED IN THE EARLY 1960'S. THE USD 203 MILLION INCREASE IN THE CURRENT ACCOUNT DEFICIT WAS MIRRORED BY A USD 140 MILLION DROP IN THE FOREIGN EXCHANGE POSITION OF THE CENTRAL BANK, AN ESTIMATED USD 28 MILLION DUE FROM OFFICIAL GOLD HOLDINGS, AND A USD 160 MILLION INCREASE IN NON-MILITARY EXTERNAL PUBLIC DEBT. WITH POPULATION INCREASES RETERNEED AT DANGEROUSLY HIGH LEVELS, JORDAN CANNOT SUSTAIN FURTHER CURRENT ACCOUNT DEFICITS OF THIS MAGNITUDE WITHOUT EXTENDED EXTERNAL BORROWING OR ADJUSTMENT MEASURES. END SUMMARY.

TRADE BALANCE

2. FOLLOWING FOUR SUCCESSIVE YEARS OF DECLINE, IMPORTS SHRUNK BY 11 PERCENT IN 1967 TO REACH DOLS 1394 MILLION. INCREASED VOLUMES AND PRICES PAID FOR OIL IMPORTS WERE A MAJOR CAUSE OF THIS INCREASE. ACCORDING TO A CENTRAL BANK SOURCE, A CONTRIBUTING FACTOR WAS ALSO AN INCREASE IN IMPORTS OF ITEMS ULTIMATELY DESTINED FOR SHIPMENT TO 1968. IMPROVED EXPORT PERFORMANCE WAS INSUFFICIENT TO OFFSET THE RISE IN IMPORTS, THIS AS TRADE BALANCE RODE FOR THE FIRST TIME IN FOUR YEARS REACHING DOLS 1055 MILLION. AFTER STRAGGLING FOR TWO YEARS IN A ROW, DOMESTIC EXPORTS TOOK BY 14 PERCENT IN DOLLAR TERMS TO DOLS 734 MILLION. DOUBLED BY THE SALE OF CIVIL AIRCRAFT FROM THE NATIONAL RESERVE, FUEL EXPORTS MORE THAN DOUBLED TO TOTAL DOLS 190 MILLION.

SERVICES BALANCE

3. IN 1967, JORDAN'S SURPLUS IN SERVICES WAS DOLS 514 MILLION, ITS LOWEST LEVEL SINCE 1979. THE POOR

PERFORMANCE IN SERVICES WAS CHIEFLY THE RESULT OF A DOLS 247 MILLION FALL IN WORKERS REMITTANCES FROM DOLS 1135 MILLION IN 1966 TO DOLS 888 MILLION IN 1967. OTHER CONTRIBUTING FACTORS WERE A FALL IN INVESTMENT INCOME, REFLECTING JORDAN'S LOWERED FOREIGN EXCHANGE RESERVES AND CONSEQUENT LOSS OF INTEREST INCOME FROM THIS SOURCE, LARGER PAYMENTS FOR TRANSPORTATION, AND HIGHER INTEREST PAID ON FOREIGN DEBT. ON THE BRIGHT SIDE, RECEIPTS FROM TRAVEL AND TOURISM RANDED 3 PERCENT FROM DOLS 530 MILLION TO HISTORIC HIGH; EARNINGS FROM SEA AND AIR TRANSPORTATION RECOVERED TO IN OR YEAR AVERAGE OF SOME DOLS 160 MILLION AFTER A SHARP DROP TO DOLS 160 MILLION IN 1966; NET REMITTANCES BY EXPATRIATE WORKERS IN JORDAN DECREASED BY A QUARTER TO DOLS 104 MILLION.

GOODS AND SERVICES BALANCE

4. THE DEFICIT IN GOODS AND SERVICES PROVIDES, IN JORDAN'S CASE, THE BEST MEASURE OF JORDAN'S EXTERNAL FINANCIAL GAP. IT IS THIS DEFICIT WHICH MUST BE FINANCED BY A COMBINATION OF UNREQUITTED OFFICIAL TRANSFERS, EXTERNAL BORROWING, AND DRAWDOWNS ON FOREIGN ASSETS. IN 1967, THIS DEFICIT WIDENED BY DOLS 212 MILLION TO DOLS 938 MILLION. DESPITE THIS DETERIORATION, THE GAP REGISTERED IN 1967 WAS, WITH THE EXCEPTION OF LAST YEAR, HIGHER THAN ANYTIME IN THE PAST TEN YEARS. THE DETERIORATION IN THE LAST YEAR, REFLECTING A WIDENING OF THE TRADE GAP AND DOWNTURN IN REMITTANCES, DEMONSTRATES THE VOLATILITY OF THE FACTORS AFFECTING JORDAN'S BALANCE OF PAYMENTS.

TRANSFERS AND CURRENT ACCOUNT DEFICIT

5. UNREQUITTED TRANSFERS, PREDOMINANTLY ARAB GRANT ASSISTANCE, FELL BY NEARLY DOLS 100 MILLION IN 1967 TO DOLS 300 MILLION, THEIR LOWEST LEVEL SINCE 1973. AS A RESULT OF THE WIDENING TRADE DEFICIT, REDUCED SERVICES SURPLUS, AND LOWER TRANSFERS, THE CURRENT ACCOUNT DEFICIT EXPANDED TO TEN FOLD FROM A MODEST DOLS 46 MILLION IN 1966 TO DOLS 349 MILLION IN 1967. IN EFFECT, THE CURRENT ACCOUNT DEFICIT, EQUIVALENT TO 6.3 PERCENT OF GNP, HAD RETURNED TO LEVELS REGISTERED IN THE EARLY 1960'S. THE LOW CURRENT ACCOUNT DEFICIT IN 1966 MUST UNDOUBTEDLY BE VIEWED AS AN ANOMALY, CHIEFLY THE RESULT OF JORDAN'S LOWER FUEL BILL THAT YEAR AS A RESULT OF CHEAP WORLD OIL.

CAPITAL ACCOUNT AND OVERALL BALANCE

6. JORDAN'S CAPITAL ACCOUNT DEFICIT WAS IMPROVED BY DOLS 75 MILLION IN 1967. TAKING INTO ACCOUNT A ABOUT US\$ 500 MILLION AND OMISSION OF GOLD 17 MILLION, THE OVERALL BALANCE OF PAYMENTS DEFICIT REVERSED FROM A POSITIVE DOLS 50 MILLION IN 1966 TO A NEGATIVE DOLS 105 MILLION IN 1967. UNFORTUNATELY, AS THE DETERIORATION IN THE JORDAN'S FOREIGN ACCOUNT POSITION. IN SHORT, JORDAN HAD TO DRAW DOWN FOREIGN EXCHANGE RESERVES IN 1967 TO COVER THE WIDENING CURRENT ACCOUNT DEFICIT.

ACCORDING TO OFFICIAL DATA, YEAR END NET FOREIGN ASSETS OF THE CENTRAL BANK FELL JD 84 MILLION FROM JD 160 MILLION TO JD 514 MILLION. EXCLUDING INCONVERTIBLE CLAIMS ON US UNDER A BILATERAL TRADE PROTOCOL, NET FOREIGN EXCHANGE ASSETS FELL NEARLY JD 60 MILLION USD 240 MILLION FROM JD 116 MILLION TO JD 55.1 MILLION. THE CENTRAL BANK DURING 1967 REDUCED ITS GOLD HOLDING OF ONE MILLION TROY OUNCES BY 84 THOUSAND, EQUIVALENT TO SOME USD 20 MILLION. PUBLIC SECTOR NON-MILITARY DEBT ROSE BY JD 65 MILLION (USD 160 MILLION) TO JD 1.261

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PAGE 02 OF 02 AMMAN 07776 00 OF 01 251930Z
BILLION USD 3.0 BILLION). CENTRAL BANK FOREIGN
EXCHANGE RESERVES REPORTED AT USD 20 MILLION AT THE END
OF APRIL, LESS THAN A WEEK'S IMPORTS, SIGNAL THAT JORDAN
WILL HAVE DIFFICULTY IN MEETING FOREIGN EXCHANGE NEEDS
FOR CURRENT IMPORTS AND DEBT SERVICE, WITHOUT HIGHER
FOREIGN BORROWING AND/OR ADJUSTMENTS.

- JORDAN BALANCE OF PAYMENTS
- (MILLION OF U.S. DOLLARS)

	1955	1956	1957
EXPORTS	709	732	932
- DOMESTIC EXPORTS	640	645	734
- RE-EXPORTS	141	37	198
IMPORTS (CIF)	-2722	-2423	-2694
TRADE BALANCE	-1933	-1692	-1762
TOURISM RECEIPTS	518	533	590
TOURISM OUTFLOWS	-422	-444	-475
WORKERS' REMITTANCES INFLOWS	1023	1125	938
WORKERS' REMITTANCES OUTFLOWS	-236	-247	-184
AIR/SEA TRANSPORT RECEIPTS	396	260	345
FREIGHT & INSURANCE RECEIPTS	79	60	51
TRANSPORTATION PAYMENTS	-309	-200	-255
INVESTMENT INCOME RECEIPTS	100	100	58
INVESTMENT INCOME PAYMENTS	-189	-241	-279
GOVERNMENT SERVICES OUTFLOW	-206	-197	-210
OTHER SERVICES, NET	126	158	225
- SERVICES BALANCE	880	966	824
GOODS AND SERVICES DEFICIT	-1053	-726	-938
UNREQUITTED TRANSFERS TO GOVT	739	633	599
UNREQUITTED TRANSFERS, PRIVATE	60	48	-11
- TOTAL TRANSFERS, NET	799	680	588
CURRENT ACCOUNT DEFICIT	-254	-46	-349
CAPITAL ACCOUNT	349	116	224
PUBLIC SECTOR INFLOWS	894	769	795
PUBLIC SECTOR OUTFLOWS	-365	-644	-513
PRIVATE, NET	24	20	29
NET ERRORS AND OMISSIONS	-49	-46	17
OVERALL BALANCE	47	32	-102

NOTE CONVERTED FROM JDS TO DOLL AT AVERAGE ANNUAL
EXCHANGE RATE AS REPORTED IN IMF, INTERNATIONAL
FINANCIAL STATISTICS, QUARTER

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