

## Flash comment: Budget deficit widens in the first half of the year due to sluggish foreign grants; Public debt continues to increase

August 25, 2014

- Jordan's fiscal deficit widened by 15% in the first half of 2014 compared to the same period of 2013, to reach JD 354 million for the January-June period.
- The JD 45 million increase in the budget deficit was a result of a JD 361 million increase in total expenditure which offset a JD 316 million increase in total revenues and grants.
- Domestic revenues increased in the first half of 2014 by 18% compared to the same period of 2013, increasing by JD 458 million. The higher revenues offset the increase in current expenditures, which grew by 10% or JD 298 million.
- However, a 33% decrease in foreign grants and a 20% increase in capital expenditures helped to widen the fiscal deficit.
- The budget balance data seem to be underperforming the official forecasts for the 2014 budget, as the fiscal deficit including grants is expected to narrow compared to the previous year, to a deficit of 4.3% of GDP.
- Though if foreign grants are excluded, then the fiscal balance has narrowed in the first half of 2014 by 13%, outperforming official forecasts for the 2014 budget.
- Nevertheless, it is better to remain cautious seeing that it is the norm for the budget balance to do well in the first few months of the year, and then deteriorate towards the end of the year.
- Meanwhile, net public debt reached JD 20.1 billion in June, compared to JD 19.1 billion at the end of 2013, increasing by JD 996 million; net public debt reached 78.5% of 2014 GDP.

JD Million	Jan - Jun 2014	Jan - Jun 2013
<b>Total Revenues and Grants</b>	<b>3,293.8</b>	<b>2,978.0</b>
Domestic Revenue	3,002.6	2,544.7
Foreign Grants	291.2	433.3
<b>Total Expenditures</b>	<b>3,647.9</b>	<b>3,287.1</b>
Current Expenditures	3,260.6	2,963.1
Capital Expenditures	387.3	324.0
<b>Fiscal Deficit/Surplus Including Grants</b>	<b>-354.1</b>	<b>-309.1</b>
<b>Fiscal Deficit/Surplus Excluding Grants</b>	<b>-645.3</b>	<b>-742.4</b>

Source: Ministry of Finance  
CAB Research Department

JD Million	Jun 2014	2013	2012
<b>External Debt</b>	<b>8,384.5</b>	<b>7,234.5</b>	<b>4,932.4</b>
Percent of GDP	32.8%	30.3%	22.5%
<b>Internal Debt</b>	<b>11,708.0</b>	<b>11,862.0</b>	<b>11,648.0</b>
Percent of GDP	45.8%	49.7%	53.0%
<b>Public Debt</b>	<b>20,092.5</b>	<b>19,096.5</b>	<b>16,581.0</b>
Percent of GDP	78.5%	80.1%	75.5%

Source: Ministry of Finance  
CAB Research Department

## **Fiscal deficit widens due to sluggish foreign grants**

According to the preliminary government budget figures released by the Jordanian Ministry of Finance for June 2014, the fiscal deficit deteriorated in the first half of this year compared to the previous year. Jordan's fiscal deficit increased by 15% in the first half of the year to reach JD 354 million compared to JD 309 million for the same period of 2013.

The JD 45 million increase in the budget deficit was a result of a JD 361 million increase in total expenditure which offset a JD 316 million increase in total revenues and grants.

Foreign grants decreased by JD 142 million to JD 291 million in the first half of the year, compared to the same period last year. The level of foreign grants committed remains somewhat stagnant. However, this figure is expected to increase in the coming months.

On the positive, domestic revenue increased by JD 458 million, or 18%, in the first half of the year; this was mainly a result of an increase in non-tax revenues, and tax on goods and services.

Moreover, the improvement in domestic revenue, offset the increase in current expenditures, which grew by 10% or JD 298 million mainly due to increases in interest payment and military expenditures.

It is also noteworthy that capital expenditures increased by 20% or JD 63 million for the same period, a reflection of the government's intention to increase capital spending stemming from GCC developmental grants.

Therefore, it seems that sluggish growth in foreign grants compared to last year, is one of the main reasons for the deterioration of the fiscal balance, which is currently underperforming official forecast for the 2014 budget. The fiscal deficit including grants is expected to narrow compared to the previous year, to a deficit of 4.3% of GDP.

Looking at the fiscal balance excluding grants, we find that the deficit narrowed to JD 645 million in the first half of the year; a drop of around 13% or JD 97 million.

Nevertheless, it is better to remain cautious seeing that it is the norm for the budget balance to do well in the first few month of the year, and then deteriorate further towards the end of the year.

JD Million	2014 Budget	2013	2012
<b>Total Revenues and Grants</b>	<b>6,982.0</b>	<b>5,758.3</b>	<b>5,054.2</b>
Domestic Revenue	5,831.0	5,118.9	4,726.9
Foreign Grants	1,151.0	639.3	327.3
<b>Total Expenditures</b>	<b>8,096.4</b>	<b>7,065.0</b>	<b>6,878.3</b>
Current Expenditures	6,827.8	6,045.8	6,202.8
Capital Expenditures	1,268.6	1,019.0	675.4
<b>Fiscal Deficit/Surplus Including Grants</b>	<b>-1,114.4</b>	<b>-1,306.5</b>	<b>-1,824.1</b>
	(-4.3% of GDP)	(-5.4% of GDP)	(-8.2% of GDP)
<b>Fiscal Deficit/Surplus Excluding Grants</b>	<b>-2,265.4</b>	<b>-1,945.8</b>	<b>-2,151.4</b>
	(-8.7% of GDP)	(-8.1% of GDP)	(-9.7% of GDP)

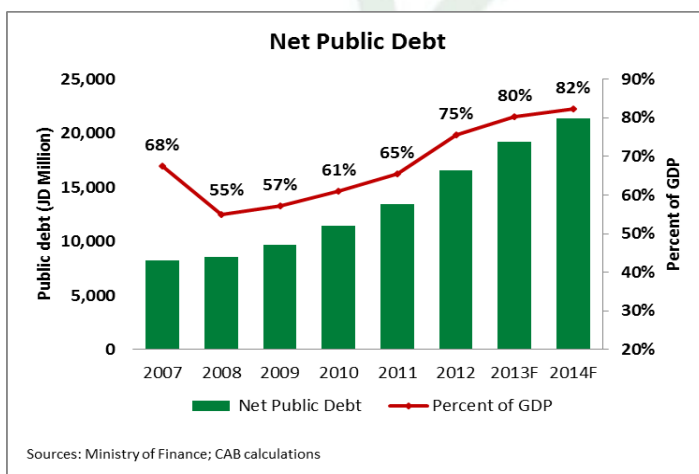
Source: Ministry of Finance  
CAB Research Department

## Public debt continues to increase

Preliminary figures by the Ministry of Finance stated that net public debt reached around JD 20.1 billion by the end of the first half of this year, around 78.5% of 2014 GDP; increasing by around JD 996 million.

External debt increased by around JD 1,150 million to reach 32.5% of 2014 GDP, mostly due to the successful issuance by the government of the \$1 billion U.S. guaranteed Eurobond. Net domestic debt increased by around JD 155 million for the same period, to reach 45.8% of GDP, as the government shift borrowing towards external markets.

We expect public debt to continue to increase in the second half of the year. Net public debt hit the 80% of GDP ceiling at the end of 2013, with projections that it will reach around 82% by end of 2014.



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