

Flash comment: Budget deficit widens in the first eight months of the year; Public debt continues to increase

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- Jordan's fiscal deficit widened by around 20% in the first eight months of 2014 compared to the same period of 2013, to reach JD 591 million for the January-August period.
- The JD 99 million increase in the budget deficit was a result of a JD 589 million increase in total expenditure which offset a JD 490 million increase in total revenues and grants.
- Domestic revenues increased in the first eight months of 2014 by around 16% compared to the same period of 2013, increasing by JD 546 million. The higher revenues offset the increase in current expenditures, which grew by around 13% or JD 498 million.
- However, an 11% 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.
- Meanwhile, budget deficit excluding foreign grants reversed its narrowing trend, widening by 4.2% in the first eight months of 2014.
- While the budget deficit could narrow in the coming months as foreign grants are committed, it is better to remain cautious seeing that it is the norm for the budget balance to deteriorate further towards the end of the year.
- Meanwhile, net public debt reached JD 20.4 billion in August, increasing by JD 1,300 million; net public debt reached 79.7% of 2014 GDP.

JD Million	Jan - Aug 2014	Jan - Aug 2013
Total Revenues and Grants	4,378.3	3,888.2
Domestic Revenue	3,909.2	3,363.6
Foreign Grants	469.1	524.6
Total Expenditures	4,969.3	4,380.6
Current Expenditures	4,415.4	3,917.7
Capital Expenditures	553.9	462.9
Fiscal Deficit/Surplus Including Grants	-591.0	-492.4
Fiscal Deficit/Surplus Excluding Grants	-1,060.1	-1,017.0

Source: Ministry of Finance

JD Million	Aug 2014	2013	2012
External Debt	8,302.1	7,234.5	4,932.4
Percent of GDP	32.4%	30.3%	22.5%
Internal Debt	12,094.0	11,862.0	11,648.0
Percent of GDP	47.3%	49.7%	53.0%
Public Debt	20,396.1	19,096.5	16,581.0
Percent of GDP	79.7%	80.1%	75.5%

Source: Ministry of Finance

Fiscal deficit widens due to sluggish foreign grants

According to the preliminary government budget figures released by the Jordanian Ministry of Finance for August 2014, the fiscal deficit deteriorated in the first eight months of this year compared to the previous year. Jordan's fiscal deficit increased by 20% in the January – August period to reach JD 591 million compared to JD 492 million for the same period of 2013.

The JD 99 million increase in the budget deficit was a result of a JD 589 million increase in total expenditure which offset a JD 490 million increase in total revenues and grants.

Foreign grants decreased by JD 56 million to JD 469 million in the first eight months of the year, compared to the same period last year. The level of foreign grants committed had been somewhat stagnant over the past few months, however, foreign grants increased by JD 139 million in August and are likely to increase further in the coming months.

On the positive, domestic revenue increased by JD 546 million, or 16%, in the first eight months 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 13% or JD 498 million mainly due to increases in interest payment and military expenditures.

It is also noteworthy that capital expenditures increased by 20% or JD 91 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, remains 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 widened to JD 1,060 million in the first eight months of the year; an increase of around 4% or JD 43 million.

Moreover, it is better to remain cautious seeing that it is the norm for the budget balance to deteriorate further towards the end of the year.

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

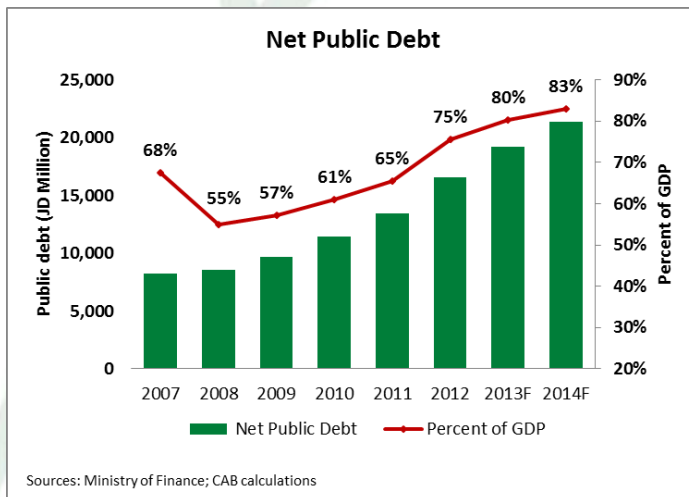
Source: Ministry of Finance; General Budget Department

Public debt continues to increase

Preliminary figures by the Ministry of Finance stated that net public debt reached around JD 20.4 billion by the end of August of this year, around 79.7% of 2014 GDP; increasing by around JD 1,300 million in the first eight months of the year.

External debt increased by around JD 1,067 million to reach 32.4% 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 232 million for the same period, to reach 49.7% of GDP, as the government shifted 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 83% by end of 2014.



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