

**EXECUTIVE
BOARD
MEETING**

EBS/21/56
Correction 1

June 29, 2021

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Jordan—Second Review Under the Extended Arrangement Under the Extended Fund Facility, Request for Augmentation of Access, and Modification of Performance Criteria**

Board Action: The attached corrections to EBS/21/56 (6/17/21) have been provided by the staff:

Mischaracterizations of the Views of the Authorities **Page 14 (para. 19, lines 4–5, “explore options to optimize costs”)**

Factual Errors Not Affecting the Presentation of Staff’s Analysis or Views **Pages 13, 14 (para. 19, line 5, “related to” and “and future”), 44**

Questions: Mr. Abbas, MCD (ext. 34547)
Ms. Bouza, MCD (ext. 34178)
Ms. Guscina, MCD (ext. 34836)

the crisis measures, while remaining alert to possible BoP pressures, e.g., in the event of a sharper/faster-than-expected rise in U.S. interest rates.

14. The CBJ's subsidized lending schemes have supported businesses, especially SMEs, but should remain temporary. In light of the weaker recovery, high unemployment, and the central role SMEs play in job creation, in March 2021 the CBJ expanded the size of its subsidized lending scheme for SMEs (introduced in 2020) by JD 200 million (MEFP ¶14). While this scheme, has been an effective tool for protecting jobs and limiting bankruptcies of viable firms during the pandemic,⁵ it should be gradually unwound once the recovery firmly takes hold.

15. The banking system has remained healthy, but asset quality and capital adequacy bear close monitoring (Figure 5). CBJ's decision to require banks not to pay out dividends in 2020 helped preserve capital buffers. At end-2020, the banking system's capital adequacy ratio remained at 18.3 percent, well above the regulatory minimum of 12 percent. While the CBJ has permitted banks to pay out dividends in 2021 (based on 2020 profits), up to a 12 percent cap of paid-in capital, this is not expected to weaken capital buffers. The CBJ has also maintained stringent provisioning standards, in line with the IFRS9's forward-looking expected loss approach. While NPLs remain low (5.5 percent), given the extension of the debt deferment period for affected borrowers from June to end-2021, it will likely take time for the pandemic impact to reflect on asset quality.⁶ Despite good operational income in 2020, banks' profits halved, including due to provisioning. Accordingly, there is a need for continued close monitoring of banks' asset quality, and sustained application of prudent accounting, reporting and provisioning standards. Should downside risks materialize, the CBJ should activate ~~its~~ an NPL resolution mechanism, requiring weaker banks to prepare prudent but feasible capital restoration plans.

Bank Soundness Indicators

	2019	2020
Risk-weighted capital adequacy ratio	18.3	18.3
NPLs (In percent of total loans)	5.0	5.5
Provisions (In percent of classified loans)	69.5	70.7
Liquidity ratio	134.1	136.6
Return on assets	1.2	0.6
Loans to deposits ratio	81.6	87.3

Source: Central Bank of Jordan.

16. Leveraging Fund TA, the authorities are working on enhancing the regime for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). The draft amendments to the current AML/CFT law have been approved by the government in March 2020 and are expected to be passed by parliament by Q3 2021 (MEFP ¶19).

⁵ This scheme has been accessed by 5,201 SMEs by end-April. The CBJ currently also has an older scheme (sized at JD 1.2 billion) in place to support productive economic sectors such as tourism, industry and renewable energy.

⁶ Banks are expected to do their own viability assessments of borrowers' future cash flows in line with IFRS9 and retain full discretion on whether to participate in the debt deferment program. However, given the massive toll that the pandemic has put on some borrowers, most banks have chosen to participate. Banks postpone the principal repayments due from the affected companies without considering this as a restructuring, and do not charge a commission or impose penalty interest on these companies.

17. The authorities have requested a Financial Sector Assessment Program (FSAP) update in 2022 to take stock of the many changes in the financial sector since the last update in 2008 (MEFP 122).

C. Gearing the Electricity and Water Sectors to Financial Sustainability

18. Further reforms are essential for the medium-term financial viability of NEPCO. Helped by high electricity consumption, COVID-related delays in the on-streaming of new plants and a drop in LNG prices, NEPCO's 2020 losses were limited to 0.3 percent of GDP, despite the cancellation of the fuel clause (which accounted for one-tenth of NEPCO revenues in 2019).⁷ While missing the end-December IT on its stock of arrears, NEPCO cleared all JD 70 million in arrears accumulated with IPPs during the lockdown by end-April 2021. However, its losses are projected to increase to around 1 percent of GDP in 2021 and remain elevated in the medium-term, driven primarily by the expected coming on-stream of the oil shale power project this year.

19. Containing NEPCO's losses remains an urgent priority (MEFP 124). The authorities remain committed to measures to (i) boost demand domestically and internationally (through export agreements), (ii) reduce costs, through continuing to optimize gas imports,⁸ retire old power plants, and implement the debt optimization plan, and (iii) ~~seek a reduction in service payments~~ explore options to optimize costs under-related to existing and future PPAs (on December 19, 2020, the government submitted arbitration requests to the Paris International Chamber of Commerce to seek declaratory judgements regarding the Attarat contracts).⁹

20. The authorities have adopted a three-year end-user electricity tariff reform plan, with front-loaded implementation set to begin early 2022 (PA, see MEFP 126–27). The plan seeks to address the high electricity costs for the business sector resulting from substantial cross-subsidization of household consumption, which have been a long-standing concern for private sector growth, employment, and competitiveness. Specifically, tariff reductions are being considered, from the first year, for energy-intensive sectors facing the highest tariff rates and with potential to generate high value added and high-productivity jobs, including in the commercial, health, and industrial sectors; additional sectors will be added in subsequent years. To make the plan revenue neutral, which is important to contain NEPCO losses, the plan reduces, in a progressive manner, the electricity subsidies accruing to households with capacity to pay, through (i) a simplified tariff structure and discount system which attenuates distortions while protecting vulnerable and low income groups, and (ii) excluding several categories of better-off households from subsidies, either in part or in full (see Annex VI). Moreover, all households will need to apply for the subsidy, and the information gathered during this application process will allow the authorities—with

⁷ The fuel clause was a charge imposed on most end-users, which kicked in when international oil prices rose above US\$55/bbl. In 2020, the fuel clause was brought to zero when oil prices fell below US\$55/bbl; the charge is not expected to be reinstated.

⁸ Staff's projections incorporate the impact of prospective electricity exports, as well as the optimization of energy inputs – notably a decline in reliance on LNG (LNG contracts expired at end-2020 and were replaced by long-term piped-gas supply contracts from Israel and Egypt, the prices of which are largely unrelated to international prices).

⁹ Pending a resolution, staff's projections continue to reflect the cost of the original contract.

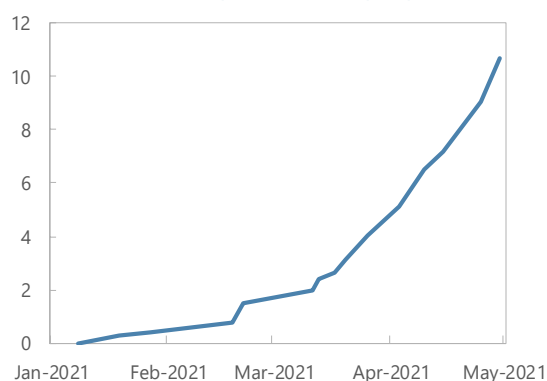
Annex I. Jordan's Vaccination Plans

1. The authorities have contracted considerable COVID-19 vaccine supplies and have developed and implemented an inclusive distribution system. Jordan's regulatory authorities have approved several vaccines including Pfizer/BioNTech, Sinopharm, AstraZeneca, Janssen, and Sputnik V. The government has contracted sufficient vaccines to cover nearly the entire adult population (around 50 percent of the total), including through tapping into the WHO's COVAX facility. The authorities have implemented an electronic vaccine registration system open to all residents, regardless of nationality or status; thus, Jordan became one of the first countries to make vaccination available to the refugee population it hosts.

The pace of vaccination was initially slowed by supply shortages, but has been accelerating.

Jordan's vaccination campaign started on January 13, with priority given to healthcare workers and health-vulnerable populations (including among refugees). However, competition on global vaccine markets made it difficult for Jordan to secure sufficient deliveries, which slowed the rollout process. ~~with only around; despite.~~ Despite the slow start, the speed of vaccination picked up significantly in April and May, and vaccine administration capacity increased to 80,000 people a day. By mid-June, around 2.7 million doses had been administered, with 19 percent of the population receiving at least one dose. Vaccine registration also started off slowly and gradually picked up: 2.9 million people had registered as of mid-June (over 50 percent of the adult population). The authorities are working to raise awareness and incentivize vaccination including by providing more freedom of movement to those vaccinated and offering vaccines to civil servants in the workplace. The government has also announced its intent to reopen the entire economy by July and to vaccinate all teachers before September to facilitate in-school learning.

Vaccinations Administered
(cumulative, per hundred people)



Sources: "Coronavirus Pandemic (COVID-19)". Published online at OurWorldInData.org.