EXECUTIVE BOARD MEETING

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March 12, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Jordan—Staff Report for the 2020 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility**

Board Action:	Executive Directors' **consideration** (Formal)
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Questions:	Mr. Jarvis, MCD (ext. 35661) Mr. Serra, MCD (ext. 38966)
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***The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. At the time of circulation of this paper to the Board, the authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

CONFIDENTIAL

JORDAN

March 11, 2020

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Jordan has made progress in reforming its economy since the 2017 Article IV consultation, but significant challenges remain. Despite a difficult environment, macroeconomic stability has been preserved, external imbalances have improved markedly, and reserves buffers have remained adequate. The exchange rate peg continues to serve the economy well, and the financial system is sound. While structural reforms advanced, notably to improve Jordan's business climate, key impediments to growth remain, reflected in weak growth outcomes and high unemployment. Notwithstanding some early progress, fiscal consolidation also proved difficult to maintain, amid persistent fiscal slippages and tax administration deficiencies, and public debt was not reduced. Regional conflicts and the hosting of Syrian refugees weigh on social conditions, public finances, investment, and the external accounts.

The authorities are committed to persevering with their efforts to reliably lift growth, create jobs, and reduce poverty, while preserving stability. Most of the effort to raise growth needs to come from structural reforms. In this regard, the program puts an emphasis on removing impediments to business growth, especially high electricity costs, while promoting employment, especially of women and young people. Fiscal policy needs to support this effort by strengthening resilience and improving the economic environment, while reducing debt to more sustainable levels. The fiscal adjustment effort puts an emphasis on broadening the tax net, improving tax collection, fighting tax avoidance and tax evasion, and tackling the informal economy.

To support their reform efforts, the authorities have requested a four-year arrangement under the Extended Fund Facility (SDR 926.37 million; 270 percent of quota; about US$1.3 billion). Continued support from donors, particularly in concessional financing and grants, will be critical to program success and help Jordan cope with the humanitarian needs arising from regional conflicts and the Syrian refugee crisis.

Approved By
Thanos Arvanitis and Sanjaya Panth

The mission team consisted of Chris Jarvis (head), Cesar Serra (head of the advance team), Andrew Tiffin, Mehdi Benatiya Andaloussi (all MCD); and Plamen Iossifov (SPR). It was assisted by Cecilia Pineda, Laila Azoor, and Jawed Sakhi. The missions were joined by Sami Geadah, Alternate Executive Director. Discussions were held in Amman during November 11–20, 2019, and January 19–30, 2020. Staff met with Prime Minister Razzaz, Minister of Finance Al-Ississ, Central Bank Governor Fariz, Minister of Planning and International Cooperation Rabadi, Minister of Energy and Mineral Resources Zawati, Minister of Industry, Trade, and Supply Hammouri, other senior government officials, the electricity company (NEPCO), the Water Authority of Jordan (WAJ), members of parliament, private sector representatives, local ambassadors and other members of the donor community, local media, and representatives of civil society groups.

CONTENTS

BOXES

FIGURES

TABLES

ANNEXES

APPENDIX

CONTEXT

1. Jordan has faced significant challenges during the past few years. Regional conflicts in Syria and Iraq have disrupted critical trade markets and capital flows; while the arrival of near 1.3 million Syrian refugees (equivalent to about one seventh of Jordan's population) has strained the country's infrastructure and public services, and increased labor-market pressures. Furthermore, volatile energy prices and uncertain regional energy supplies have undermined local confidence and investment.

2. Economic policies improved under the 2016 EFF, but not sufficiently to generate higher growth, reduce unemployment, and eliminate imbalances (Box 1)**.** Growth in Jordan has averaged only 2 percent since 2016—insufficient to absorb the expanding pool of new job seekers in Jordan's labor market. Per capita GDP growth has been negative every year since 2009. While external buffers have been preserved and reforms advanced, fiscal vulnerabilities remain, limiting the scope for social and capital spending. Subdued growth and high unemployment have led to public discontent, and eroded support for difficult reforms.

3. To address Jordan's protracted external financing needs and support its pro-growth economic program, the authorities have requested a new Fund arrangement. Jordan needs strong structural reforms that can reliably uplift sustainable and inclusive growth, create jobs, and reduce poverty, coupled with gradual fiscal consolidation to enhance resilience and reduce debt to more sustainable levels. The proposed four-year arrangement under the Extended Fund Facility (EFF) builds on the 2016 EFF, while allowing the needed adjustment and reforms to spread over a longer period to support the growth recovery. It sets access at 270 percent of quota (SDR 926.37 million; about US$1.3 billion). Donor support for Jordan's efforts, particularly in the form of concessional financing and budget grants, continues to be essential.

ECONOMIC DEVELOPMENTS AND OUTLOOK

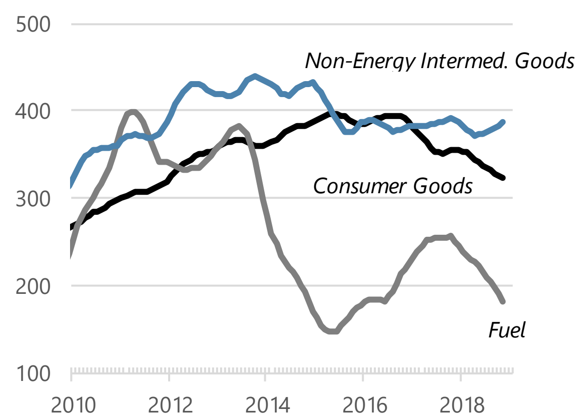
A. Preserving Macroeconomic Stability Amid Persistent Challenges

4. Despite a difficult environment, the authorities have made some important progress in recent years.

- **The economy remained stable and inflation low**. Macroeconomic and financial stability has been maintained. Headline inflation has remained broadly contained, rising to 3½ percent during 2017–18, reflecting primarily the impact of fiscal measures, but decreasing to 0.6 percent in 2019, due to subdued food and imports prices, including fuel. Core inflation decelerated to 1.3 percent in 2019, compared to an average of 2½ percent during 2017–18.

- **External imbalances have improved significantly**. The current account deficit has narrowed markedly since 2017, due to a strong recovery in exports and tourism and to lower imports. Exports have been supported by favorable trends in world prices of potash and phosphates and preferential access to the U.S. and EU markets. The demand for non-energy imports has weakened since 2018, reflecting a sharp decline in import-intensive FDI and lower import prices in 2019 (linked to the appreciation of the US dollar). These factors, combined with the lower energy import bill—driven by the resumption of gas imports from Egypt and drop in world energy prices—resulted in a narrowing of the current account deficit (excluding grants) from an average of 12 percent of GDP during 2017–18 to a projected 6 percent in 2019.

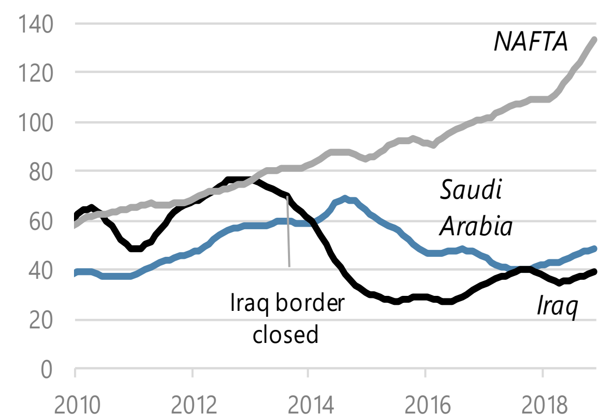
Imports: Select Categories, 2010-19
(JD millions, monthly, seas. adj. trend)



Sources: National authorities and IMF staff calculations.

- **Reserve buffers have been preserved.** Reserves fell significantly in mid-2018, in reaction to the uncertainty arising from protests against a draft income-tax law that forced the government to resign. However, reserves stabilized after the announcement of a new government, an increase in policy rates by the Central Bank of Jordan (CBJ), and additional external financing from bilateral and multilateral creditors. In 2019, conditions in the FX market improved and the CBJ was able to partly recoup past reserve losses. Reserve buffers remain at comfortable levels: slightly below 100 percent of RAM as of end-2019.

Exports: Select Destinations 2010-19
(JD millions, monthly, seas.adj. trend)



- **The financial sector is sound**. The banking system remains well capitalized, liquid, and profitable. Private sector credit grew by about 5 percent in 2019, compared with around 10 percent during 2016–17, but SME access to credit continues increasing. The non-performing loan ratio is also relatively low, around 5.2 percent (although up from 4.2 percent in 2018).

- **The authorities have taken some important steps to improve Jordan's business climate.** Key measures include: passing amendments to the insolvency, inspections, and secured lending laws; revamping the PIM/PPP framework; launching a private credit bureau; opening previously-restricted economic activities to FDI; eliminating and merging multiple licenses; implementing electronic filing and payment for labor taxes and other mandatory contributions;

and automating business registration. These improvements have been reflected in recent business environment assessments, including Jordan's ranking among the top improvers in the World Bank's 2020 Doing Business Report.

5. **However, despite efforts, fiscal consolidation proved difficult to maintain.** Although there was important progress during 2016–17 (an adjustment in the primary deficit of 3¼ percent of GDP), this outcome was partly reversed during 2018–19 (a reversal of about 2 percent of GDP). Yields from efforts to broaden the tax base and mobilize revenues, particularly from the removal of sales tax exemptions, fell short of expectations, reflecting marked weaknesses in tax administration, tax arbitrage opportunities from special economic zones, and delays in implementation. Weaker revenues led the authorities to cut back on public investment and postpone the clearance of legacy arrears. Slippages in 2019 were particularly pronounced, owing to a significant loss of tax revenue from a pickup in cigarette smuggling after the re-opening of the border with Syria; delays in passing by-laws under the new income tax law; and weaker import growth. Significant wage and pension increase for public sector workers, agreed in 2019 and reflected in the 2020 budget, will add to expenditure pressures. There were also persistent off-budget expenditures in both 2018 and 2019.

6. **Persistent obstacles in reaching cost recovery in public utilities continued to add to the fiscal challenges.** The authorities made some progress in containing losses at the state-owned electricity company (NEPCO) but sizable losses at the water authority company (WAJ) remained.

- **In 2017, the authorities adopted an automatic electricity tariff adjustment mechanism (AETAM) to insulate NEPCO from swings in oil prices and contain its losses.** Wholesale tariffs increased by 23 percent by mid-2018, but NEPCO's losses amounted to 0.3 percent of GDP in 2018, reflecting an uneven implementation of the AETAM during the second half of 2018 and in early 2019.

- **To improve its financial viability, NEPCO adopted a "Roadmap towards financial sustainability of the power sector" with support from the World Bank.** The implementation of cost-savings measures under the roadmap and lower international oil prices underpinned NEPCO's operational balance in 2019. However, revenue growth has been subdued as higher tariff customers have reduced their consumption from the grid and invested in self-generation capacity to avoid high electricity tariffs (Box 2). This has brought up new challenges as with new electricity plants coming on stream, Jordan has now excess capacity in electricity production, but with limited export options. Overall, NEPCO's operational position is still not strong enough to avoid losses and bring its debt down, which remains high at around 17 percent of GDP.

- **Losses in the water sector have remained sizable, despite progress in the implementation of the action plan to reduce sectoral losses.** As part of the plan, measures focused on improving the collection of bills for water distribution companies and developing projects to reduce physical- and theft-related losses on the water grid. WAJ and the three distribution companies reached 89 percent of cost recovery by end-2017. However, WAJ and the water distribution companies ran an overall deficit of 1.3 percent of GDP in 2019, up from 0.9 percent of GDP in 2018. The sector also accumulated new arrears to the electricity sector estimated at ¼ percent of GDP for 2019.

7. **Low private and public investment, high unemployment, and high public debt remain critical challenges.** While buoyant tourism and exports gave some impetus to economic activity in 2019, the improvement in the business climate has not yet translated into higher domestic or foreign investment. In fact, gross capital formation has declined considerably in the last 10 years. This has undermined growth, averaging 2¼ percent in 2010-19 from 6½ percent in 2002–09. Per capita income has continued to decline due to rapid population growth and was in 2019 about 10 percent below its 2010 level. Unemployment (excluding foreign labor) remained on an upward trend in 2019, reaching 19.1 percent in the third quarter, up from 18 percent in the same period of 2017, remaining particularly high for youth (43.1 percent) and women (27.2 percent). Public debt has continued to increase, leaving fiscal space for critical social and infrastructure spending at risk.

B. Outlook and Risks

8. **The macroeconomic framework underlying the program lays out a path to higher growth and fiscal and external stability.** With full implementation of the envisaged pro-growth structural agenda and fiscal consolidation under the program, staff projects that real growth will be 2.1 percent in 2020 and gradually increase to 3.3 percent over the medium term. The baseline reflects fiscal consolidation of about 4 percent of GDP during 2020–24—to ensure placing public debt on a downward path—and a strengthened growth agenda, underpinned by reduced business costs, particularly on electricity and labor, and measures to increase employment for women and young people. Inflation is expected to gradually reach 2½ percent over the medium term. The current account deficit (excluding grants) is projected to expand to about 7 percent of GDP in 2020—reflecting the recovery of non-energy imports and FDI—and then narrow to about 5 percent of GDP over the medium term, with gross usable reserves expected to remain adequate above 100 percent of the ARA metric over the program period.

9. **The outlook remains subject to significant risks (Annex III).** Fiscal slippages—including from pressures in the run up to parliamentary elections due in the Fall, lower-than-expected yields from tax administration measures, and reform fatigue—could jeopardize program objectives, and together with heightened rollover risks, endanger debt sustainability. Powerful interests disadvantaged by structural measures, including electricity reform, could stir up social discontent, jeopardizing the authorities' ability to deliver structural reforms. Externally, escalation of the conflict in Syria, an increase in social unrest in Iraq, a worsening economic crisis in Lebanon, and deterioration in relations with Israel might weigh on domestic sentiment, regional and global trade, tourism and FDI. Over the medium-term, if fiscal slippages or subdued growth were to continue, additional donor support with a significant grant component would be required to preserve the program objectives of reducing debt vulnerabilities. On the upside, deep structural reforms could increase potential growth over the medium term above staff projections, and reconstruction in Iraq and Syria could improve Jordan's growth and external position.

10. The ongoing COVID-19 outbreak may exert significant pressures in the near term. Trade links with China, travel restrictions and unwillingness to travel by tourists, and reductions in FDI, trade and remittances channels—particularly from GCC countries in the event of an extended global impact of COVID-19—could exert significant pressures on economic growth and the balance of payments, though the latter may be mitigated by lower oil prices. There may be a need for emergency budget spending to prevent, detect, treat, and contain the outbreak, as well as revenue losses from lower economic activity. The authorities are already taking measures to contain COVID-19, including travel restrictions, quarantines, medical examinations at borders and airports, and a public communication and awareness campaign to limit the spread of COVID-19 and inform the public on examination and treatment facilities. The CBJ has also reduced policy interest rates by 50 basis points, following the recent Fed action. The program contains an adjuster for any immediate spending needs to respond to COVID-19. In the event of a large economic impact materializing, the authorities will consult Fund staff in how the program could be adapted to ensure its objectives remain achievable while ensuring there is needed COVID-19-related spending. Given the uncertainty about the extent and duration of the crisis in Jordan and globally, it is not possible to quantify the economic effects and the specific policy response on the program at this stage. However, the program would be reassessed, as needed, at the time of the reviews.

ARTICLE IV POLICY DISCUSSIONS: A STRATEGY FOR GROWTH AND STABILITY

Staff and the authorities agreed that the challenge for Jordan is to raise growth while maintaining macroeconomic stability. Most of the effort to raise growth needs to come from structural reforms, including by removing the impediments to business growth, especially high electricity costs, while promoting employment, especially of women and young people. In the fiscal adjustment effort, the program puts an emphasis on revenue mobilization by collecting taxes from people who do not pay them, rather than raising tax rates, and on rationalizing current spending. Thus, reform of the Investment Law, which confers tax incentives to some companies, and reform of tax administration are key instruments of fiscal adjustment in the program. Reform of the electricity and water sectors will also be crucial and will need to balance social stability with fiscal and environmental sustainability. The whole package must be strong enough to preserve monetary and financial stability, with adequate reserve buffers to support the exchange rate peg, and scope for private-sector growth and greater financial inclusion.

A. Making Government Finances More Sustainable and Efficient

11. With public debt above safe levels, continued fiscal consolidation is critical to stabilize and place debt on a steady downward path, while protecting the growth recovery. Public debt (consolidated concept) is projected at about 80 percent of GDP in 2020 (equivalent to about 100 percent of GDP on unconsolidated basis; Box 3 and Annex I). Continued deficits of the size seen in the past two years would raise debt levels further and would represent a sizable drain on local liquidity, prompting higher interest rates, tighter credit, and eventually causing slower growth. With an immediate reduction in the deficit in 2020, in part reflecting the full-year effect of measures already taken, debt will be stabilized in 2020, but further measures will be needed to put debt on a downward path thereafter. In this respect, the authorities agreed that targeting a primary surplus of about ½ percent of GDP over the medium term is key to steadily reduce debt towards 75 percent of GDP.

12. Structural fiscal reforms are critical to underpin any fiscal strategy over the medium term. With military and security spending likely to stay elevated given the still challenging regional environment, and the need to increase public investment to support growth objectives, staff and the authorities agreed that it will be critical to advance reforms to mobilize additional revenues and enhance the efficiency of public expenditures.

- **On the revenue side**, decisive actions are needed to address tax administration weaknesses, related to inaccurate registration, filing and audit deficiencies, sizable tax arrears, weak compliance risk management, substandard access and use of information for audit and enforcement purposes, and extensive revenue leakage from smuggling and tax arbitration and transfer pricing practices in special economic zones. Further efforts to rationalize tax exemptions, revisit the property taxation framework, and realign excises will be needed.

- **On the expenditure side**, efforts should be concentrated on: (i) containing the wage bill, particularly after the increased compensation agreed in 2019 and legislated in early 2020; (ii) making more efficient the provision of public health services; (iii) rationalizing transfers to public sector entities; (iv) streamlining social assistance programs and improving their targeting to protect the vulnerable; and (v) further rationalizing non-priority current expenditures, as warranted.

13. Persistent structural fiscal vulnerabilities will also need to be overcome. The use of treasury cash resources to cover off-budget outlays amounted to about 1 percent of GDP per year during 2018-19, reflecting significant weaknesses in the budgeting process. Recent off-budget pressures have also partly emerged from the drawdown of trust accounts, which were accumulated in past years through the (now abolished) practice of carrying-over unspent budget allocations. Likewise, the accumulation of domestic arrears to the health and energy sectors has ranged between ½ and 1 percent of GDP per year over the past three years. Continued commitments to clear arrears and attend off-budget pressures without solving the underlying weaknesses will only continue adding to debt. The authorities agreed that these practices need to be arrested through a revamping of public financial management practices and legislation.

14. Further tax cuts and amnesties should be avoided. Staff considered that the practice of creating additional reduced GST rates should be arrested, as it only adds to an already complex and difficult-to-administer tax system. Well-targeted social programs are better tools to support those in need than the provision of sales tax exemptions, which could be regressive. Similarly, further tax amnesties and discretionary incentives would distort the tax system with, at best, dubious results, and should be resisted. The authorities saw some scope for discretionary fiscal measures to support growth as long as the impact on fiscal balances is limited.

B. Improving the Sustainability of the Electricity and Water Sectors

15. Reforming the electricity tariff structure is indispensable for Jordan businesses to regain competitiveness. The authorities agreed that electricity tariffs should be gradually lowered for businesses. This could be achieved in a revenue-neutral way for NEPCO by reducing cross-subsidies contributed by businesses and received by households. At present, electricity subsidies received by households and embedded in the electricity tariff structure are not targeted. A reform of electricity tariffs would seek to target subsidies to vulnerable households, while reducing subsidies received by households with capacity to pay.

16. The authorities considered continued efforts are needed to secure NEPCO's financial sustainability. These involve three key pillars:

- **NEPCO should contain its costs.** NEPCO has diversified its fuel mix, ensuring energy security through the coming on stream of several PPAs. Going forward, NEPCO should aim to continue reducing operational costs. The Electricity Bill Recovery Mechanism adopted under the energy-sector roadmap should ensure timely payments of electricity bills by government agencies, through adequate budgeting of electricity costs. Proper assessment of fiscal commitments and contingent liabilities (FCCLs) in current and future PPAs will also be critical to preserve NEPCO's sustainability and mitigate the potential macro-fiscal and public debt impacts.

- **NEPCO's revenues need to be strengthened.** NEPCO should remove pricing distortions that have led customers to stop buying electricity from existing production capacity, invest in self-generation capacity, and get access to the grid below cost. High marginal electricity tariffs should be lowered in order to encourage consumption and incentivize large costumers to remain in the grid. The authorities agreed that NEPCO should continue seeking additional revenues and also explore electricity export opportunities in the region.

- **NEPCO needs to implement a debt optimization plan.** As described in the electricity-reform roadmap, the authorities conducted a study to optimize NEPCO's legacy debt as well as future contractual liabilities. The authorities agreed that it is critical for NEPCO to implement the plan to secure its financial viability and contain the impact stemming from contingent liabilities going forward.

17. While considering the sensitivities around water provision in a water-scarce country, the authorities agreed that WAJ's finances should be strengthened. Jordan's "Action Plan to Reduce Water Sector Losses" should continue to be implemented, with the regular issue of progress reports. Additional steps should be taken to strengthen water sector institutions and ensure better coordination between the water and energy sectors. Given the high burden of electricity costs on water distribution companies, a joint action plan between the energy and water sector should be developed. Water sector arrears to PPP projects and to electricity distribution companies need to be arrested, through proper budgeting and cash management practices.

C. Preserving Monetary and Financial Stability

18. The exchange rate peg continues to serve as an appropriate nominal anchor, which has helped preserve stability in the face of repeated external shocks. Monetary policy aims at balancing the need for an adequate level of reserves to support the peg, while also considering domestic economic conditions. Staff considered that the recent loosening cycle in Jordan was appropriate, but noted that a tightening of policy might be required should reserve pressures emerge. The authorities concurred but stressed that the current policy setting was well understood by markets, and that any changes would need to be communicated carefully. On the exchange rate, although analysis is complicated by continued regional turmoil, staff views Jordan's real exchange rate to be moderately overvalued (Annex II). The authorities stressed that the peg still provides a critical anchor, noting that in current circumstances, greater exchange rate flexibility would have a limited impact on exports, given that access to key trading partners is still constrained by conflict. Staff agreed, but noted that continued steady fiscal consolidation and growth-enhancing reforms along with continued concessional donor financing, are essential to reduce Jordan's remaining external imbalances over the medium term. Staff warned that in the absence of consolidation and reform, continued imbalances would increase Jordan's vulnerabilities.

19. The banking system is well capitalized, liquid, and profitable, even in a low-growth environment. Despite a prolonged economic slowdown, capital adequacy at 17 percent is still well above the regulatory minimum. The authorities noted that the recent easing of household lending reflects, in part, an ongoing dialogue with banks on trends and potential risks, and they stressed that key prudential ratios are manageable. In the event of rising credit risk, the CBJ has a broad range of potential tools at its disposal, including risk-weight requirements, and concrete limits on loan-to-value and debt-to-income ratios. Moreover, stress tests suggest that even a 100 percent increase in NPLs resulting from a worsening of economic conditions would only reduce capital adequacy from 17 percent to 15.6 percent.

20. The authorities plan to continue strengthening the legislative and regulatory framework for Jordan's banking and financial sectors, including for AML/CFT. The CBJ has issued Basel III regulations on capital adequacy and liquidity requirements. It also worked proactively with banks to ensure a smooth transition to IFRS9 accounting standards in 2018.[1] In addition, the authorities have continued with their comprehensive review of banking sector, including amendments to the Banking Law and new instructions on large exposure limits. With the assistance of the Fund, the authorities also completed an ML/FT National Risk Assessment, which will contribute to a forthcoming review of Jordan's AML/CFT law. Regulatory agencies, including the CBJ, have amended their regulations to strengthen conformity with FATF standards and are putting in place a risk-based framework for offsite and onsite AML/CFT supervision of banks, money-exchange firms, and other financial and nonfinancial institutions. A mutual evaluation by MENAFATF proceeded over the course of 2018, and was adopted in October 2019. The findings of that

[1] Studies suggest that the new IFRS9 provisioning requirements have had only a modest impact on loan classification, provisions and capital ratios. Under CBJ provisioning guidelines, banks are required to compare the old requirements with those under the new IFRS9 standard, and to apply the more stringent of the two.

assessment will help inform the amendments to the AML/CFT Law in 2020 as well as other reforms needed to improve Jordan's compliance with the FATF standard. Amendments to the Insurance Law, to allow for the transfer of the supervision of the insurance sector to the CBJ, are currently before parliament and are expected to be passed early in 2020, allowing for completion of the transfer by end-June 2020.

D. Rebalancing Structural Reforms

21. Reviving growth will require a focused effort to boost private-sector competitiveness and investment. Aside from its clearly demonstrated resilience, Jordan enjoys a range of advantages, including a young and highly educated population, a central regional location, and a stable political environment. But capitalizing on these benefits will not be easy. Jordan needs to attract investments to increase its manufacturing base and exports of high value-added services, and to attract entrepreneurs to areas such as professional business services, technology, tourism, and logistics. Private sector growth from these investments, and the export of high-quality human-capital services, will help boost domestic demand and confidence, increase the availability of high-productivity jobs, and help shake the economy loose from its current low-level growth trap.

22. The authorities should continue to take steps to enhance private-sector growth. With the assistance of the World Bank and other partners, the authorities are implementing a five-year matrix aiming to: (i) improve the business climate (by liberalizing FDI, reducing the cost of starting and operating a business, and supporting the digital economy); (ii) boost exports (especially in services); and (iii) foster a more flexible and responsive labor market (by removing regulatory barriers to female participation, lowering barriers to formalization, and allowing easier access for high-skilled foreign workers). To the extent possible, key measures should be frontloaded to have a faster impact on the business environment and economic activity.

23. In addition, pro-employment reforms are critical for inclusive growth and stability. Much has already been done. The authorities have amended the Social Security law, which now allows for: (i) a temporary reduction in contribution rates for small startups employing young workers;[2] (ii) cash support for nurseries in areas with low female labor force participation; (iii) access to individual unemployment insurance savings to support higher education and medical expenses; and (iv) parametric reforms for social security (increasing the early-retirement age and the associated deduction rate, and allowing part-time workers to contribute to the scheme). The authorities have also recently approved a series of incentives to directly boost job creation for targeted groups (youth and women) through conditional direct cash support to businesses. The authorities are also planning to direct capital investment to infrastructure projects that support inclusive growth, for example, developing a safe and affordable public transportation system that will make it easier for women to join the workforce. This priority was reflected in the 2020 budget.

[2] The reduced contribution rate (from the existing 21.75 percent to 5.25 percent) will apply to newly created enterprises in the agriculture and ICT sectors, with less than 25 employees for a period of 5 years, for workers up to the age of 28. Pension credits for old-age insurance are not granted during that period.

24. Measures to support financial sector development can help broaden financial access. Continued implementation of the authorities' financial inclusion strategy, along with initiatives to support credit to SMEs, and the recent enactment of the secured transactions law, will help broaden financial access, especially for women, the poor, and SMEs.

TAKING THE STRATEGY FORWARD IN THE PROGRAM SUPPORTED BY THE EXTENDED FUND FACILITY

Reflecting the need to balance growth and stability, the program combines a growth-enhancing reform agenda with further fiscal adjustment and structural fiscal reforms. Fiscal adjustment is designed to support macroeconomic stability. This encompasses both external stability through adequate reserves to support the exchange rate peg, and a more sustainable public debt level. The second anchor of the program is a pro-growth reform agenda, including more effective public-sector investment and finances, reduced business costs, and measures to improve government transparency and accountability, and the investment climate.

A. Fiscal Policy

25. The 2020 budget targets a primary deficit of 2.3 percent of GDP (MEFP, ¶8)**.** This adjustment requires gross fiscal measures of 2½ percent of GDP, to offset higher budgeted outlays for public sector compensation and capital expenditures (see text table below). On the revenue side, the estimated yield from current policies and new measures would amount to 1.2 percent of GDP, underpinned by: (i) the full impact of the new income tax law; (ii) measures to reduce trading of illegal cigarette brands, to prevent losses from cigarette collections; (iii) curtailment and non-renewal of discretionary sales tax and customs exemptions; and (iv) an increase in customs service fees on FTA-related (tariff-exempted) imported goods, while reducing the complexity of the tariff rate structure (as previously recommended by staff). On the spending side, the budget includes the legislated increase in public sector compensation (civil and military wages and pensions), and an increase in public investment, along with offsetting measures amounting to 1.2 percent of GDP to

Gross fiscal measures under the 2020 budget
(percent of GDP)

Estimated overall yield	**2.5**
Revenue measures	**1.2**
Full annual impact of the new income tax law	0.5
Measures to reduce trading of illegal cigarette brands	0.3
Increase in customs service fees and rationalization of tariff rates	0.1
Curtailment and non-renewal of discretionary customs and sales tax exemptions	0.1
Collection of large taxpayers' arrears	0.1
Tax administration measures	0.1
Expenditure measures	**1.2**
Control of off-budget expenditures	0.9
Rationalization of government employees	0.2
Other net current-expenditure compression	0.2

Source: IMF staff estimates.

arrest off-budget expenditures and compress current outlays. In this context, the 2020 budget has been enacted in line with program understandings, and the cabinet has passed a decision to prohibit the use of treasury cash resources other than in budgeted allocations and previously identified advances (*prior actions*). The authorities will also conduct a review of accumulated trust accounts (*structural benchmark*).

26. Over the medium term, fiscal consolidation needs to be sustained to contain and begin to reduce debt (MEFP, ¶8)**.** The authorities agreed to a medium-term fiscal path that delivers additional fiscal adjustment of about 2½ percent of GDP during 2021–24 (evenly phased per year).[3] This adjustment is necessary given Jordan's elevated debt and increasing interest burden. It can be achieved by striking a balance between revenue and expenditure measures. The medium-term strategy will be underpinned by: (i) improving tax administration and tackling tax evasion; (ii) curtailing investment tax exemptions; (iii) revisiting the property taxation framework; (iv) realigning excises; and (v) further rationalizing non-priority expenditures (see below).

27. Accelerated efforts to revamp tax and customs administration will be critical to ensure meeting fiscal program targets (MEFP, ¶18)**.** ISTD has made recent progress in the implementation of key recommendations in the May 2019 FAD technical assistance report, including through the establishment of new directorates aimed at sectors with poor compliance, and the revamp of the audit function through risk-based practices and the establishment of specialized audit teams for high-risk sectors in the large taxpayer directorate (LTD). The program will support the authorities' decision to recruit 100 qualified staff, including new auditors, to be distributed across the LTD and three new directorates, in two phases: 50 by end-June 2020 and 50 by end-December 2020 (*structural benchmark*). The program also includes the rollout of compliance improvement campaigns, as recommended by the January 2020 FAD technical assistance report, for professional groups by end-December 2020. To arrest smuggling tobacco activities, the authorities have committed to implement a digital track and trace system to monitor cigarette production by end-December 2020 (*structural benchmark*).

28. Managing compliance under and revisiting investment incentives are essential to prevent ongoing revenue leakage (MEFP, ¶19). Investment tax exemptions within and outside special economic zones create diversion risks and opportunities for tax arbitrage and transfer pricing abuses. A critical problem is the co-existent of two parallel tax and customs administrations in Jordan (ISTD/Jordan Customs, and the Aqaba Special Economic Zone Authority – ASEZA), particularly due to the weak "border" control at ASEZA and pervasive smuggling opportunities. The authorities are committed to amend the 2014 Investment Law to revisit and rationalize investment incentives within and outside special economic zones, and will submit to Parliament such amendments by end-September 2020 (*structural benchmark*). The authorities have agreed to impose a single tax administration and a single customs service for Jordan, bringing ASEZA participants under ISTD and Customs national control by end-December 2020 (*structural benchmark*). Furthermore, to address the problem of "letter-box companies" that do not produce in special

[3] The proposed four-year arrangement would expire by March 2024, thereby including the 2024 budget.

economic zones but use the incentives for tax avoidance, the Ministry of Finance (MoF) will introduce Economic Substance Regulations for all special economic zones by end-December 2020 (*structural benchmark*).[4]

29. Public financial management will be strengthened (MEFP, ¶20)**.** The authorities agreed to take measures to control domestic arrears, including through strengthened rules for issuance of medical exemptions, and a public-sector fuel consumption monitoring system (in coordination with the Jordan Petroleum Refinery Company) to prevent the buildup of energy arrears. The authorities, with technical assistance from the Fund, also plan to submit to Parliament an amended draft Organic Budget Law by end-December 2020.

30. Improving the targeting of Jordan's social safety net is crucial to help accommodate social spending pressures, including on health and education (MEFP, ¶9)**.** The authorities have committed to conduct a comprehensive review of their social spending envelope, and to publish an action plan to enhance its effectiveness and efficiency in coordination with the World Bank and UNICEF by end-September 2020, building on the recently published National Social Protection Strategy for 2019-2025. The program continues supporting the three-year expansion (2019–21) of the National Aid Fund (NAF)'s cash transfer program, and includes a revised definition of the social spending indicative target, consisting of: (i) non-wage components of the education and health sectors' current expenditure envelope; (ii) NAF's social protection programs; and (iii) the school feeding program.

31. The authorities have made progress in strengthening the public-private partnership (PPP) framework and the monitoring of fiscal risks (MEFP, ¶21)**.** Parliament has recently passed a revamped PPP law, with the support of the World Bank. The law clearly establishes the process for tendering PPPs, with proper value-for-money assessments, and vetted by the MoF's new unit to assess fiscal commitments and contingent liabilities (FCCLs). No sector is exempted from the application of the new law. The authorities will complete a detailed study to identify and quantify FCCLs stemming from the existing portfolio of PPPs/PPAs by end-December 2020.

B. Electricity and Water Sector Policies

32. Reducing electricity tariffs for key businesses and targeting electricity subsidies to vulnerable households is a core element of the program's pro-growth agenda (MEFP, ¶10)**.** By end-June 2020, the authorities will develop a detailed plan that will identify reforms to be implemented gradually over the program period to phase out cross-subsidies from businesses to households, in a revenue-neutral manner for NEPCO (*structural benchmark*). The plan will develop a mean-tested methodology to target households who will be eligible for electricity subsidies, based on detailed data on income and electricity consumption. The plan will also identify key businesses

[4] Currently, Jordan's special economic zones lack a proper framework of economic substance requirements. Normally, such requirements involve meeting some specific tests, such as: (i) conduct core income-generating activities within Jordan; (ii) have directors and management; (iii) have an adequate number of qualified staff physically present to perform activities; and (iv) incur an adequate level of operating expenses.

for which a reduction in electricity prices will have the highest growth and job-creation impact. By end-October 2020, the authorities will adopt measures to achieve a third of the needed reductions in cross-subsidies received by households (on an annualized basis), which, after measures already taken this year, are currently estimated at about JD 225 million (*structural benchmark*).

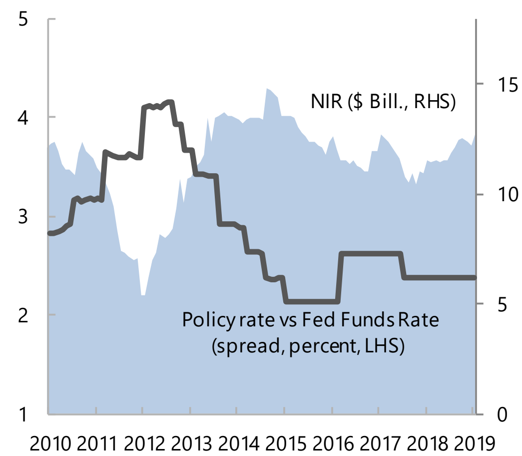
33. NEPCO will implement additional cost-savings and revenue-enhancing measures to contain its projected losses in 2020 and onwards (MEFP, ¶11-12)**.** It is expected that at current policies and the prevailing electricity tariff structure, NEPCO will register significant losses in 2020 and onwards, following the increases in its generation costs due to the coming on stream of an oil-shale PPA (Box 2). Staff projections assume that NEPCO's existing obligations will be met in full, but it is flexible to incorporate the outcome of potential renegotiations between NEPCO and its contractors (which would provide an upside to the program). To contain these losses, NEPCO will increase revenues through improvements in bill collection, targeted rebates to boost domestic demand, and the introduction of fixed fees for renewable energy systems that are connected to the grid.

34. The authorities are committed to ensure full transparency in the PPAs that will come on stream over the medium term (MEFP, ¶13)**.** They will issue a tender for a contract with an international accounting, consulting or legal firm to conduct a comprehensive review of the underlying contracts of the most significant PPA (*prior action*) with a view to hiring a firm by end-June 2020 (*structural benchmark*) and to the review's completion, which will be shared with Fund staff, by end-September 2020 (*structural benchmark*). The review will ascertain whether: (i) the procurement processes were conducted in line with international best practices and domestic laws; and (ii) the contracts' financial implications on NEPCO are well understood. The authorities will make available all relevant contracts for this review. NEPCO will contract any new PPAs according to the needs of the electricity system, following international best practices for procurement, and guided by the new PPP law.

35. Further efforts are needed to contain water sector losses (MEFP, ¶14–17)**.** The authorities will continue implementing the "Action Plan to Reduce Water Sector Losses" and issue progress reports on a regular basis to monitor the implementation of the strategy. The focus will be on reducing costs, including by increasing energy efficiency (MEFP, ¶15). Revenues will be enhanced through tackling non-revenue water (physical and commercial losses) and increasing billing efficiency. The authorities will also study the water tariff structure both for corporate and households and explore options for a restructuring of water tariffs and their potential social impacts (MEFP, ¶15). In order to improve efficiency and following the recent implementation of WAJ's debt centralization, WAJ will be transferred under the Ministry of Water, while preserving WAJ's independent accounting and reporting of their financial statements (MEFP, ¶14). The general budget will provide adequate allocations to ensure the timely payments to PPP projects and to the energy sector. Future contingent liabilities arising from existing and new PPPs will be closely monitored under the new PPP law (MEFP, ¶17).

C. Monetary Policy

Reserves and Policy Rates



36. The monetary policy stance is currently appropriate, and should remain geared toward supporting the peg by maintaining an adequate reserve buffer. The authorities will maintain the current interest rate differential with the United States, but will continue to monitor domestic and external economic developments carefully; acting swiftly and aggressively if needed to protect Jordan's external buffer and to ensure that reserve targets are met (MEFP, ¶22). The current program aims to build on recent progress and to boost reserves further in 2020, maintaining them at around 107–110 percent of RAM over the program period. The authorities recognize that monetary and fiscal policy are tightly linked, and that meeting fiscal targets will be vital in easing the burden on monetary policy.

D. Structural Reforms

37. Program reforms are centered on the most important remaining impediments to growth. These will include measures in the areas of business costs (including access to finance) and competitiveness, the labor market, and governance. They build on the Jordan Economic Growth Plan 2018-22, and are anchored by the five-year reform matrix launched at the 2019 London Initiative.

38. Strengthening the business environment will help foster investment and enhance competitiveness (MEFP, ¶28)**.** The program prioritizes measures to reduce the cost of starting and operating a business, including through simplifying procedures, and further strengthening investor protection. Initiatives under the program include: a new "Regulatory Predictability Framework"; the launch of the "Investor's Journey" agenda, which seeks to prioritize Jordan's business-environment reforms from the perspective of the investor; implementation of the Licensing Reform Policy Paper adopted by Council of Ministers in 2019; and the streamlining of construction permits and customs-clearance procedures.

39. Reforms to facilitate access to finance will help broaden the reach and usage of financial services (MEFP, ¶29)**.** Given the important role of SMEs in Jordan's economy, and their exclusion from traditional sources of finance, increasing their access to finance could boost economic growth and job creation, while supporting financial stability.

- Jordan has already taken several important steps. The passage of the Secured Transactions Law was particularly important for SMEs, as these firms typically do not possess valuable "fixed" assets that they can pledge as collateral. Similarly, passage of amendments to the Insolvency Law (and associated by-laws) was important as the insolvency framework plays a key role in shaping SME's access to credit. Further, the provision of credit scores by Jordan's new Private

Credit Bureau reduces the cost of assessing a borrower's creditworthiness. These efforts, among others, have recently been reflected in a significant improvement in Jordan's Doing Business score on "access to credit", where Jordan now ranks 4th globally.

- Under the program, in 2020 the authorities will move proactively to put the new insolvency framework in place, training licensed insolvency practitioners and judges, establishing the Insolvency Committee, and operationalizing an electronic insolvency registry. The CBJ has established a new division in charge of promoting financial inclusion in Jordan, and in 2017 published a Financial Inclusion Strategy for 2018-20. The strategy includes the development of critical infrastructure, such as the credit bureau and payment system; enhancing digital financial services; and improving access to microfinance. In early 2020, the authorities will commission a study on financial inclusion in Jordan, to be completed by end-2020 (*structural benchmark*). This study will inform an updated strategy for 2021-23.

40. The program will promote job creation through broad-based labor market reforms, with a focus on measures to support youth and female employment (MEFP, ¶30)**.**

- To encourage formality, the authorities have explored new and more flexible arrangements for social-security contributions for youth and new hires—for example, amending the Social Security Law to allow for a temporary reduction in contribution rates for start-ups hiring new entrants to the labor market. While initially this lower contribution rate is envisaged to only apply to the agricultural and ICT sectors, it will be expanded to all economic sectors by end-June 2020 (*structural benchmark*).

- To improve gender equality, in addition to amendments to the Labor Law allowing for more flexible work arrangements, the authorities have removed all references to gender that can be used to discriminate against women in Ministry of Labor instructions, and have amended key by-laws that had previously restricted working hours for women. The Labor Law also mandates that firms with more than 20 parent employees (men or women) provide daycare for children under five. The authorities are now working on by-laws and instructions that will clarify firms' obligations in providing this care. These will be approved and circulated by end-June 2020 (*structural benchmark*). As an additional step towards ensuring gender equality in the work force, the authorities are working to enhance the quality and reliability of public transport.

41. A well-functioning public procurement system will help advance inclusive growth and service delivery through more efficient, transparent, and accountable public spending (MEFP, ¶32)**.** In 2019, the authorities enacted a new Unified Public Procurement By-law, which provides for the establishment of a fully independent central policy and oversight unit, as well as an independent complaints-handling unit. These units will be set up in 2020. They will develop and clarify procurement criteria to ensure that bidding companies use only formal employees/subcontractors, and will develop a plan to set aside public procurement quotas for SMEs. The authorities are also progressively rolling out an integrated e-procurement system, which will cover all public institutions at the ministerial level as well as at municipalities by end-December 2021.

42. The authorities intend to improve the asset disclosure system to increase information sharing and transparency and to promote public trust. (MEFP, ¶33). The authorities will by end-December 2020 propose amendments to the Illicit Gains Law to require that all disclosures be submitted to the Jordan Integrity and Anti-Corruption Commission (JIACC); to ensure that all disclosure information is maintained within an electronic database that can be shared across relevant government agencies; and to allow more public access to basic financial disclosure information by public officials (*structural benchmark*). These measures are intended to increase public trust and accountability.

PROGRAM FINANCING AND MODALITIES

43. Length and conditionality. Staff proposes a four-year extended arrangement under the EFF, with semi-annual reviews. This would be sufficient to cover the time needed to place debt on a downward path without undermining growth, while also providing sufficient time for reviews to cover the full implementation of structural reforms. The attached Letter of Intent and MEFP describe the authorities' economic program and set out their commitments. The program will be guided by performance criteria and structural benchmarks. Staff proposes performance criteria for end-June and end-December 2020 as well as indicative targets for end-September 2020 and end-March 2021 (Table 1 of the MEFP). Structural benchmarks are well-calibrated and phased in line with the authorities' implementation capacity (Table 2 of the MEFP). The program is flexible to accommodate unbudgeted spending pressures that may stem from efforts to prevent, detect, control, treat, and contain the spread of COVID-19.

44. Financing. Firm commitments of financing assurances are in place for the first twelve months of the arrangement, with good prospects thereafter. Jordan's combined financing needs would be covered by:

- **Fund access.** Staff proposes normal access of 270 percent of quota (SDR 926.37 million or about US$1.3 billion). Disbursements would be evenly spaced throughout the program period across eight program review. Fund purchases will be on-lent to the government.

- **Additional financing from donors.** The external financing needs over the first twelve months of the program are projected to be fully financed (see table below), with good prospects thereafter in the form of additional loans (partly on concessional terms) and grants. Issuances of non-guaranteed Eurobonds in 2020 and 2022 are expected to rollover maturing guaranteed Eurobonds.

External Financing Gap and Sources, 2020–24
(In million of U.S. dollars)

	12 months from EFF start	2020	2021	2022	2023	2024
Financing gap	**2,660**	**2,689**	**1,462**	**867**	**767**	**517**
Official Financing	**2,660**	**2,689**	**1,462**	**867**	**767**	**517**
IMF 1/	285	284	285	287	289	145
Identified official public external financing	2,375	2,406	1,176	580	479	372
World Bank	1,129	1,146	331	84	36	26
European Union	336	336	227	0	0	0
Japan	200	200	100	100	100	0
Others 2/	711	724	518	396	343	345
Memorandum item						
Eurobond issuance	1,000	1,000	0	1,000	0	0

Source: Fund staff projections.
1/ Purchases under EFF.
2/ Financial support from France, Germany, Italy, Kuwait, Saudi Arabia and UAE.

45. **Program risks and contingency plans.** Given past experiences, there is some risk that there will be fiscal slippages. The program guards against these by requiring significant prior actions (see below). Improvements in tax collection are critical for medium-term fiscal adjustment. Assurance that these can be achieved is enhanced by the authorities' requests for technical assistance from the Fund to improve their tax administration, and much of this TA has already been delivered. There are also contingent fiscal measures (notably a willingness to increase excises) if sufficient savings are not realized. If other risks materialize, including economic disruption caused by COVID-19, it will be important that donors also be prepared to step up their support for Jordan. If the impact from the COVID-19 outbreak is deep enough to put at risk meeting program targets, the program may need to be adapted to the changed circumstances.

46. **To demonstrate their commitment to the new program, the authorities have agreed to take *three prior actions***:

- Enactment of the 2020 general budget consistent with program understandings;
- Passage of cabinet decision to prohibit the use of treasury cash resources other than in budgeted allocations and previously identified advances, including COVID-19-related emergency outlays and medical supplies and equipment; and
- Issue a tender, based on terms of reference prepared in consultation with IMF staff, for an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA.

47. Capacity to repay the Fund is adequate. Fund credit outstanding will peak in 2024 at 2.6 percent of GDP, equivalent to around 8 percent of exports of goods and non-factor services and gross usable reserves. EFF repurchases peak at 0.9 percent of exports of goods and non-factor services and 1.1 percent of gross usable reserves in 2028, well below the corresponding values under past Fund-supported programs.

48. Safeguards assessment. An updated safeguards assessment of the CBJ should be completed by no later than the first review. Also, a Memorandum of Understanding between the CBJ and MOF on responsibilities for servicing financial obligations to the IMF will be updated.

STAFF APPRAISAL

49. Since the Arab Spring Jordan has maintained economic stability but has been mired in low growth. Thanks to strong efforts by the authorities and the generous support of donors, Jordan has avoided a balance of payments crisis and has kept inflation low, even in the face of a succession of external shocks. But growth has been only around 2 percent for the last few years, and unemployment, especially among young people, has risen further. Meanwhile, public debt has continued to grow, in part because persistent fiscal slippages have resulted in fiscal adjustment repeatedly falling short of expectations.

50. Structural reforms are essential to raise growth without sacrificing hard-won stability. Fiscal policy is constrained by high public debt, while the authorities' strong preference for maintaining the exchange rate peg imposes constraints on monetary policy. Thus, structural reforms are the key to raising growth, especially reforms to support the growth of the sophisticated manufacturing and services that Jordan needs to thrive. Key policies include simplifying procedures to make Jordan an attractive destination for investment; energy sector reforms to reduce business costs; and steps to increase access to labor markets and credit for women and young people.

51. Fiscal adjustment must continue, based on improved tax collection and making sure targeted subsidies go to those who need them most. Given public resistance to higher tax rates, it will be important to improve tax collection from those who do not pay. Revenue mobilization therefore needs to rely more squarely on a comprehensive effort to broaden the tax base, reduce tax exemptions, and level the playing field between the formal and the informal sectors. This will require an overhaul of the investment incentives framework, particularly the reform of the 2014 Investment Law, and a steadfast effort to improve tax administration. Similarly, collection of electricity and water tariffs needs to be improved and subsidies concentrated on those people who need them most. Technical assistance from the Fund can help in both areas, but unwavering and timely implementation of the envisaged high-quality fiscal measures and a willingness to take on entrenched interests is vital to reverse the marked slippages of the recent past.

52. Improvements in governance are needed to win back trust. Improvements in tax administration and public financial management are needed not just to improve budget outcomes but to increase public trust. An independent review of some of the costly decisions made in the electricity sector and greater openness in the asset disclosure process for public officials can also improve economic governance, and in the latter case reduce vulnerability to corruption.

53. The staff supports the authorities' request for a four-year arrangement under the EFF. Risks to the program could arise from social discontent that causes economic disruption and policy missteps, and from adverse global and regional developments. These risks are ameliorated by the authorities' strong commitment to the program, as evidenced by the completion of prior actions, and by the broad support of the international community for Jordan. Continued strong efforts by the authorities and support from Jordan's partners will be essential to the success of the program.

54. It is proposed that the next Article IV consultation with Jordan take place on a 24-month cycle in accordance with the Decision on Article IV Consultation Cycles (Decision No. 14747-(10/96), as amended).

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Jordan has requested an Extended Arrangement in an amount equivalent to SDR 926.37 million for a period of four years from the date of adoption of this decision.

2. The Fund approves the Extended Arrangement for Jordan set forth in EBS/20/19 and decides that purchases may be made under the arrangement, on the condition that the information provided by Jordan on the implementation of the measures specified as prior actions in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the Minister of Finance of Jordan and the Governor of the Central Bank of Jordan, dated March 11, 2020, is accurate.

3. The Fund waives the limitation in Article V, Section 3 (b) (iii). (EBS/20/19).

Box 1. Jordan: Past Fund Staff Advice and Implementation

Macroeconomic policies were implemented with delays but broadly in line with past staff advice. Despite efforts, however, fiscal consolidation fell short of expectations, reflecting sizable revenue shortfalls—due to widespread weaknesses in tax administration, low-quality measures, delays in implementation, and some tax policy reversals—and public financial management deficiencies.

- **Improving the tax framework.** Macro-critical measures, such as the reduction of sales-tax exemptions and amendments to the income tax law, have strengthened the tax policy framework. However, persistent weaknesses in tax administration, inability to tackle tax evasion and smuggling, and some tax policy reversals contributed to sizable revenue slippages over 2018-19. To reduce deviations from program targets, the authorities have often relied on low-quality measures, including cuts to capital spending and postponing the clearance of domestic arrears. Combined with delayed structural reforms, this has undermined growth.
- **Containing fiscal losses from utilities.** The automatic electricity tariff adjustment mechanism has curbed NEPCO's losses since end-2017, while protecting vulnerable people, but it has been unevenly implemented. Moreover, the recently-approved *Roadmap Towards Financial Sustainability of the Power Sector* aims to support NEPCO's financial sustainability and to reform Jordan's cross-subsidized tariff structure that penalizes some businesses. Implementation of the water-sector action plan has somewhat contained losses in this sector; but delays in a number of action-plan measures, together with higher electricity costs, suggest the need for refinements to the strategy.
- **Ensuring adequate reserve buffers to preserve the exchange-rate peg at a time of high regional and domestic uncertainty.** Notwithstanding the persistently challenging regional environment, the CBJ has been able to maintain an appropriate monetary policy stance, geared toward ensuring adequate reserve coverage. The banking sector has remained well capitalized, provisioned, and profitable, despite a prolonged slowdown in economic activity.

Progress on structural reforms.

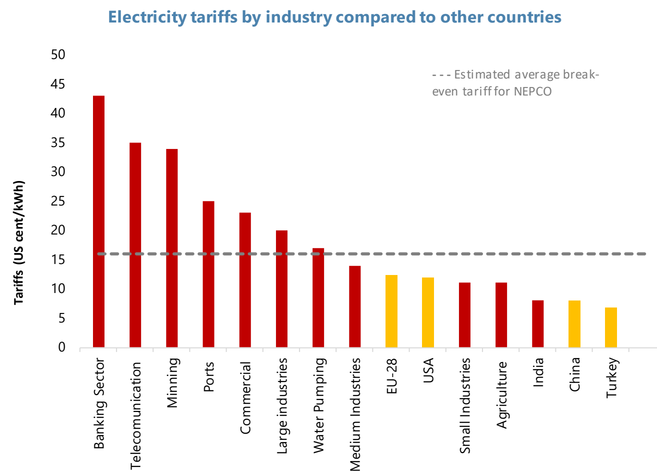
- **Fostering inclusive growth and job creation by generating a business environment more conducive to investment.** Albeit with delays, the business environment has been strengthened through passage of the inspection, insolvency and secured lending laws. These laws, together with a fully operational credit bureau, will help facilitate access to finance for SMEs.
- **Strengthening the social safety net and addressing constraints to female labor market participation.** A three-year program, developed in collaboration with the World Bank, has led to the expansion of the National Aid Fund's cash-transfer program and improved its targeting. Several recent regulations have promoted flexible work arrangements and access to childcare services to boost female participation in the labor force.
- **Reducing payroll taxes.** High social security contributions are regarded as a key impediment to formal employment. Recent amendments to the Social Security Law have paved the way for implementing a temporary reduction in contribution rates for targeted groups (long-timed recommended by staff).

Box 2. Jordan: Electricity Sector Challenges and Prospects

Cross-subsidies

Electricity tariffs were significantly increased for all Jordanian businesses to absorb the costs stemming from the 2010 gas-supply crisis. Since 2011, electricity tariffs more than tripled for mining and for the banking sector, increased by 165 percent for telecommunication, 154 percent for water pumping and by 100 percent for large industries. In the meantime, households' tariffs were left unchanged for the first four tranches of consumption (up to 600 kWh per month; or about 70 percent of households) and were increased by 50 percent for the largest consumption tranche.

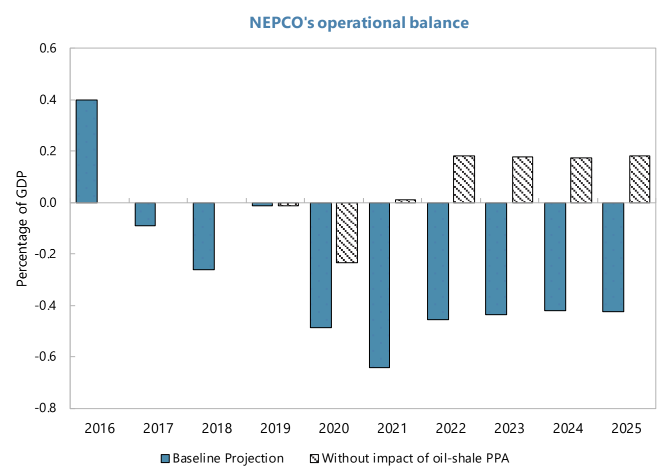
As a result, high electricity tariffs have become a binding constraint for growth. Businesses face electricity costs that are higher than those prevailing in the rest of the world. Such high tariffs have a significant impact on growth, as Jordanian industries are relatively energy-intensive.



The highly dispersed tariff structure entailed cross-subsidies amounting to 1.3 percent of GDP in 2018. Businesses providing the highest cross-subsidies include: commercial sector (0.3 percent of GDP), telecommunication (0.1 percent of GDP), and large industries, mining, hospitals, and ports (a total of 0.1 percent of GDP). In 2018, households received 1.0 percent of GDP in cross-subsidies. At present, all households regardless of their income receive subsidies for part of their electricity consumption.

NEPCO's challenges and measures going forward

NEPCO's costs are projected to significantly increase due to the coming on stream of an oil-shale PPA. Staff estimates that the PPA will add costs to NEPCO amounting to about 0.7 percent of GDP every year, leading NEPCO to register losses amounting to 0.5 percent of GDP in 2020 and to 0.4 percent of GDP over the medium term.



NEPCO is committed to implement measures to contain losses over the medium term. NEPCO's revenues are expected to be supported by regional export agreements; increased bill collection; and renewable connection fees. NEPCO will also continue to contain its operational costs, underpinned by cost-savings measures from its LNG regasification and storage capacity, optimization of PPA contracts, and implementation of its debt optimization plan.

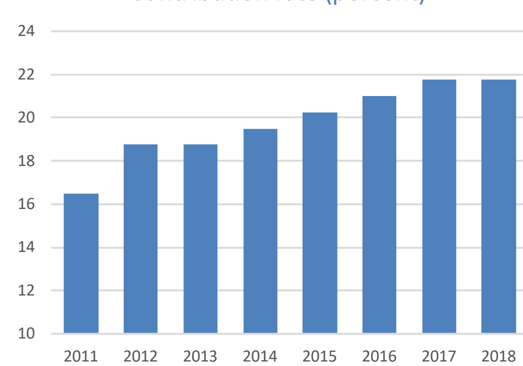
Box 3. Jordan: Implications of Expanding the Public Sector Coverage for Assessing Debt Sustainability Risks

Context.

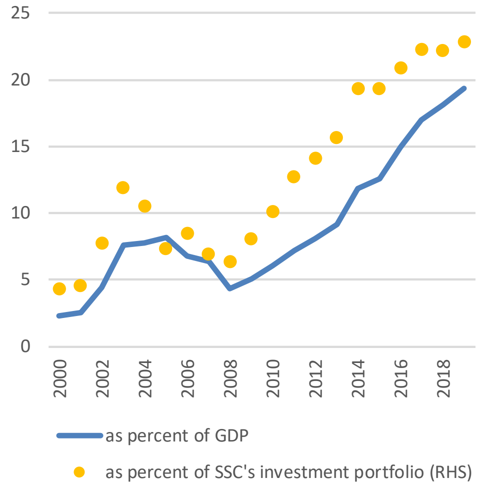
- **The appropriate coverage of public debt is pivotal to adequately assessing risks to public debt sustainability.** Under existing Fund guidance (see Staff Guidance Note for Public Debt Sustainability Analysis (DSA) in Market-Access Countries), the coverage of public debt in the DSA should be as broad as possible, but should take into account the availability (and frequency) of fiscal data.
- **Coverage at the general government level (GG) is the most commonly used in DSAs for market-access countries.** GG, as defined in GFSM 2014, is the perimeter of government that is expected to cover all entities that materially affect fiscal policies, consisting of: (i) government units of central, state, provincial, regional, and local government, and social security funds imposed and controlled by those units; and (2) non-market non-profit institutions that are controlled by government units.
- **The 2016 EFF monitored fiscal operations at an expanded central government level.** Debt dynamics and gross financing needs (GFNs) reflected fiscal operations at the level of the central government and selected government units (NEPCO, WAJ, and water distribution companies), for which debt accrued as a result of public policy decisions. Lack of fiscal data at the frequency needed for program purposes prevented the inclusion of public sector units outside the expanded central government (e.g., the Social Security Corporation).
- **The 2020 EFF expands the coverage of public debt.** The program aligns the coverage of public debt to a concept closer to the general government, by consolidating the holdings of government debt of the Social Security Corporation. However, the program will continue monitoring fiscal targets at the expanded central government level.

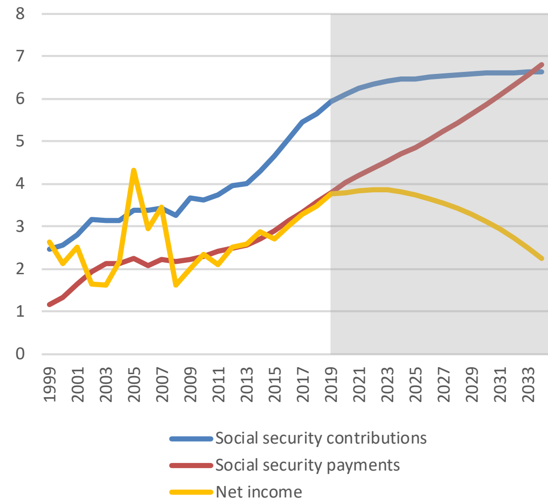
Social Security Corporation (SSC). The SSC—a fully state-owned corporation—runs a contributory, defined-benefit pension plan. Its assets are managed by the Social Security Investment Fund (SSIF). Contribution rates have increased from 16.5 percent in 2011 to 21.75 percent currently. Together with a high ratio of contributors to beneficiaries (about 10 to 1), the SSC is running an annual surplus of about 3½ percent of GDP. Its pension fund assets amount to 35 percent of GDP, with holdings of Jordanian government debt representing 19 percent of GDP in 2019. SSIF's investment guidelines cap its investment in government debt at 60 percent of its total portfolio, with the ratio now at 55 percent. Based on the latest actuarial report under existing pension parameters, contribution income would equal total expenses in 2034, contribution and investment income would equal total expenses in 2041, and the pension fund assets would start declining thereafter.

Contribution rate (percent)



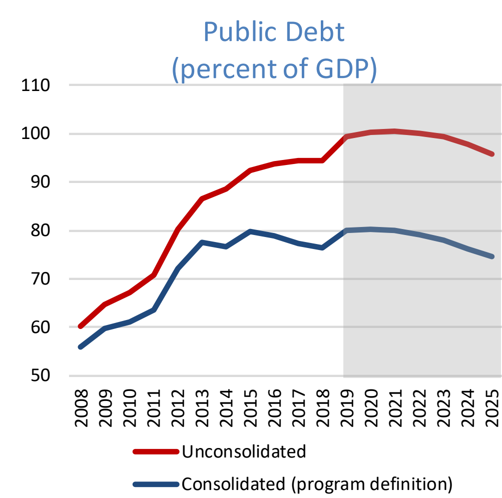
Box 3. Jordan: Implications of Expanding the Public Sector Coverage for Assessing Debt Sustainability Risks (concluded)





Implications of the new debt coverage.

- **The new consolidated debt concept for DSA purposes would better reflect Jordan's sustainability risks.**[1] The consolidation of the SSC's operations would help reflect the underlying debt sustainability risks and liquidity pressures over the near- and medium-term. It would also allow for comparability and evenhanded reporting of Jordan's debt burden with market-access countries, most of which report at the GG level.



- **However, program targets will continue to focus on the expanded central government coverage.** Fiscal effort under the program will continue to be monitored and measured by the adjustment at the central government level, NEPCO and the government-owned water sector. This is more under the direct control of the authorities. Also, achieving targeted improvements in central government balances are essential for the central government to be able to meet its long-term obligations with the SSC.

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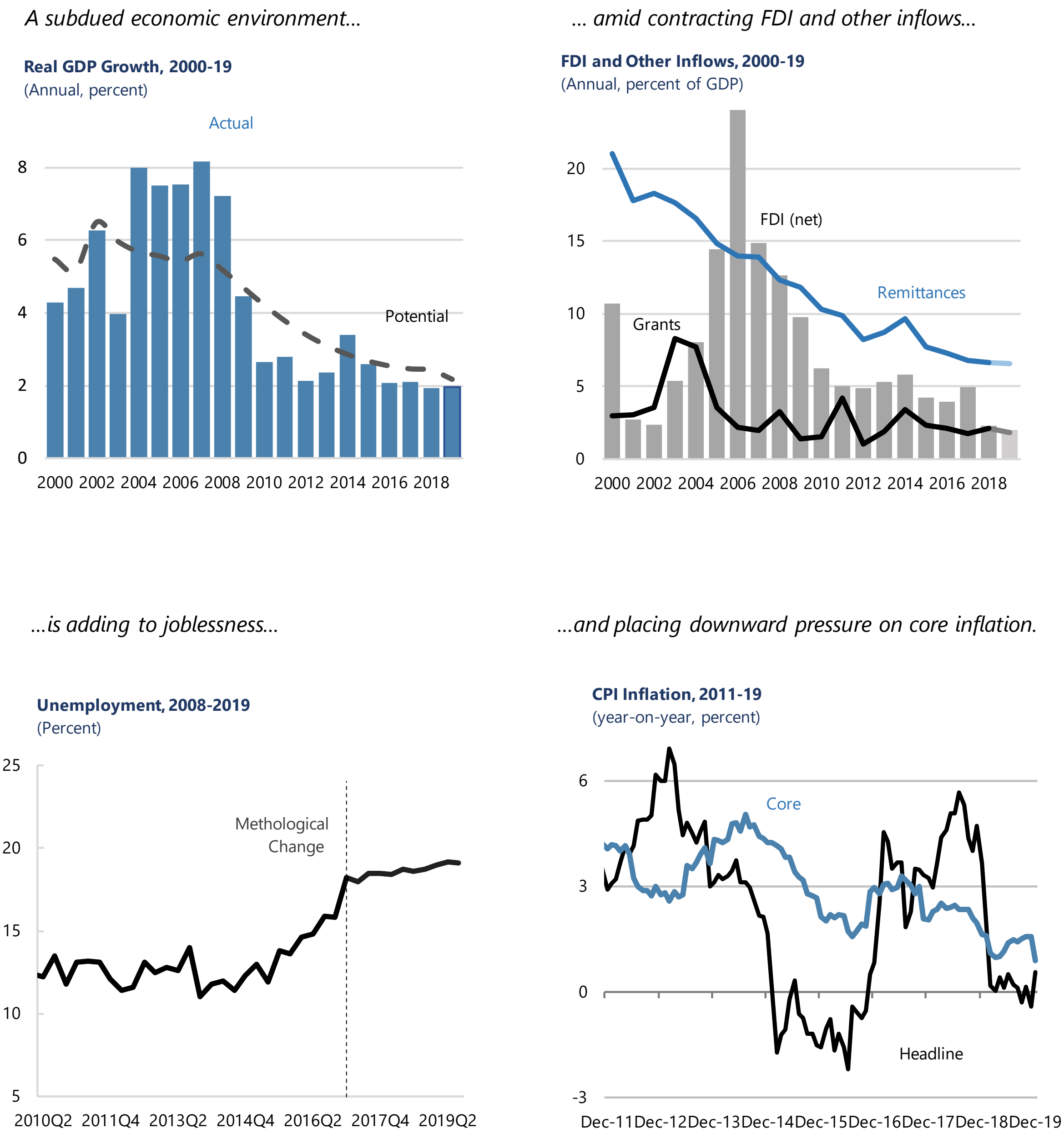
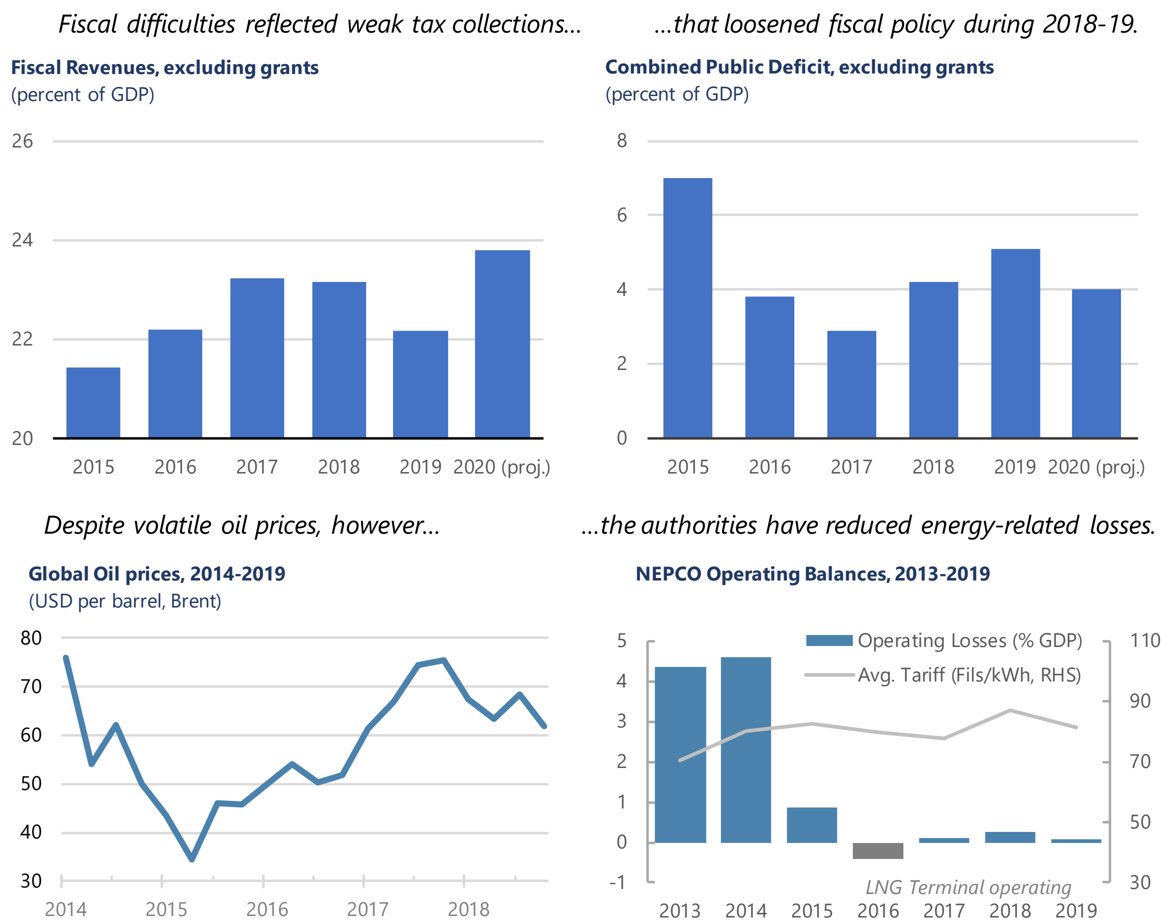
[1] Efforts continue in order to compile financial data from other government units and local governments at a high frequency, with support of Fund and donor technical assistance. The authorities have made available SSC financial data at the frequency needed for program purposes.

Figure 1. Jordan: Macroeconomic Developments Since 2017 Article IV



Sources: National authorities; IMF staff calculations

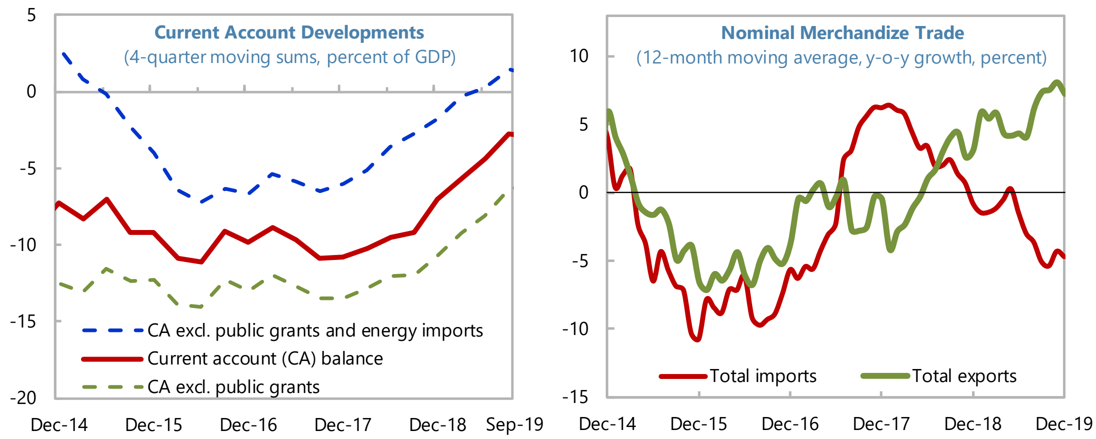
Figure 2. Jordan: Fiscal Performance Since 2017 Article IV



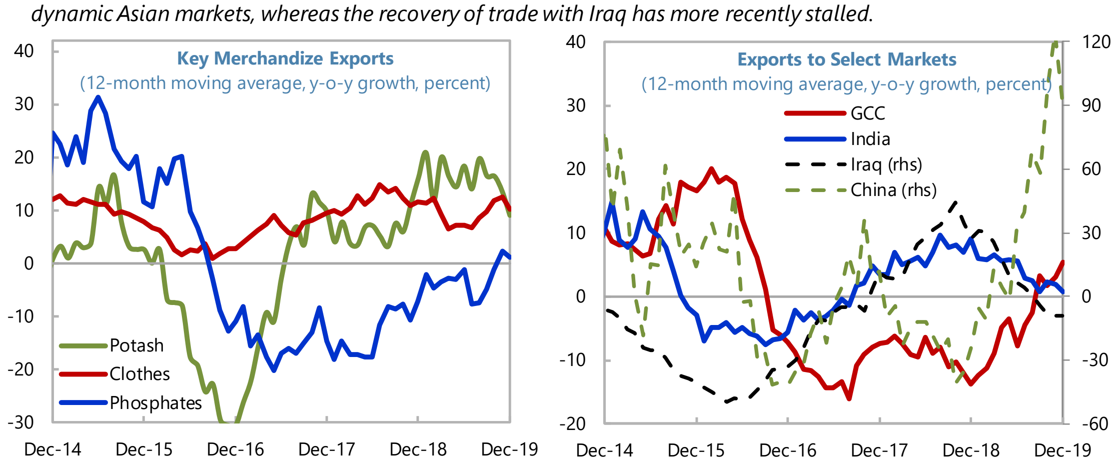
Sources: Haver, Bloomberg, national authorities, and IMF staff calculations.

Figure 3. Jordan: External Performance Since 2017 Article IV

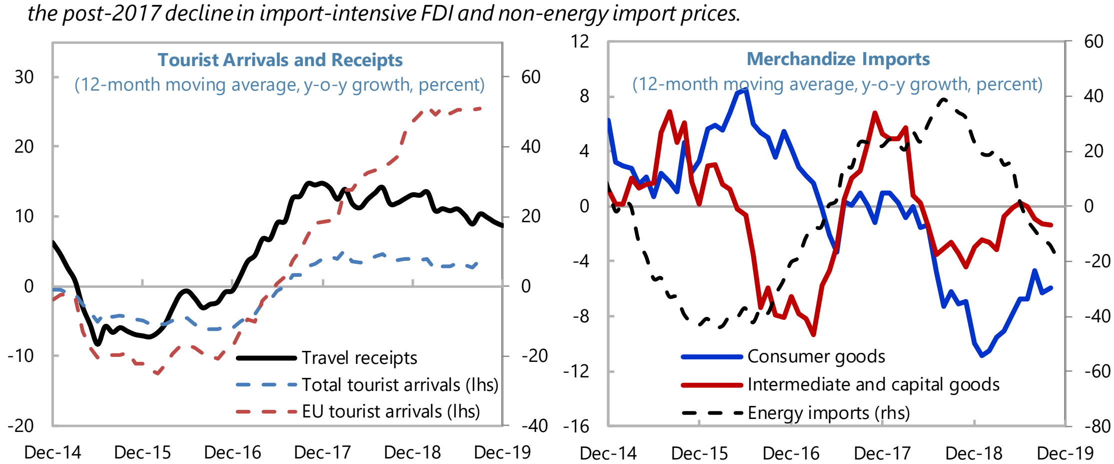
The current account deficit, both headline and excl. volatile grants and energy, has narrowed significantly since 2017, on the back of a strong recovery in exports and tourism and weak imports.



Exports benefitted from favorable trends in world prices of potash and phosphates and booming clothes exports covered by free trade agreements, as well as from improved access to GCC and expansion in dynamic Asian markets, whereas the recovery of trade with Iraq has more recently stalled.



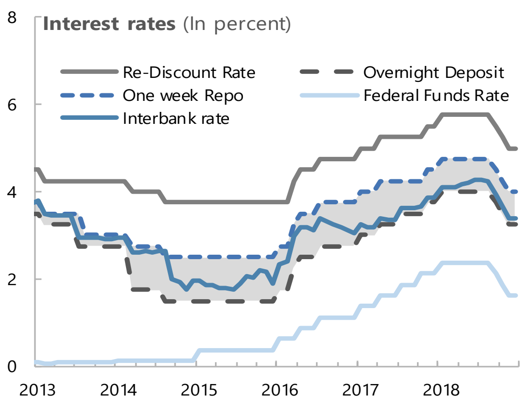
Tourism boomed with the improvement in the geopolitical climate in the region and the 2018 start of operations of European low-cost airlines. Demand for non-energy imports weakened, reflecting the sluggish economy, and the post-2017 decline in import-intensive FDI and non-energy import prices.



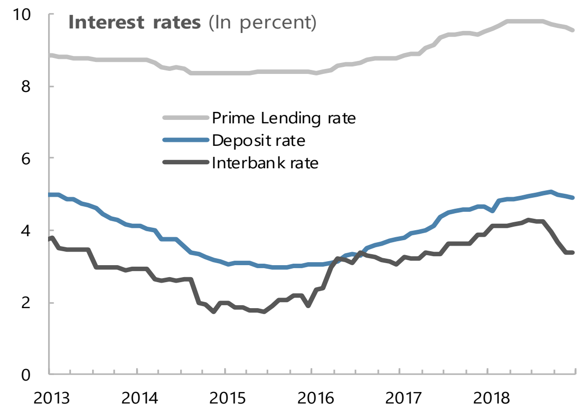
Source: Central Bank of Jordan, Jordan Department of Statistics, and Fund staff estimates.

Figure 4. Jordan: Monetary and Financial Developments

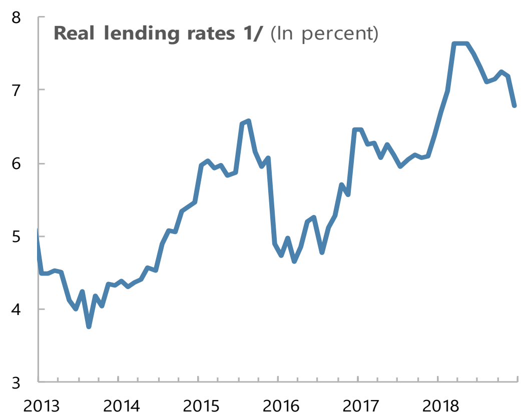
Following the U.S. Federal Reserve, the CBJ started loosening monetary policy in 2019…



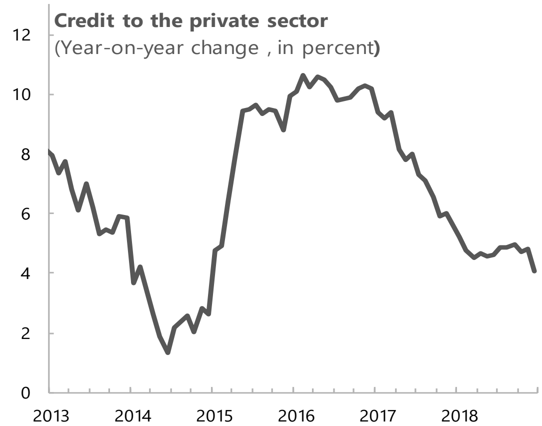
…contributing to an easing in the interbank rate and a modest turnaround of deposit and lending rates.



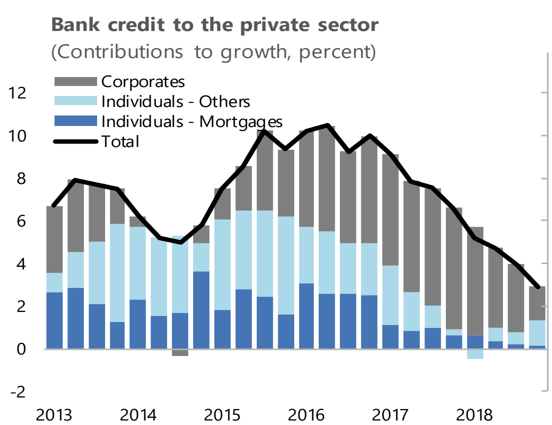
But low inflation has kept real lending rates high…



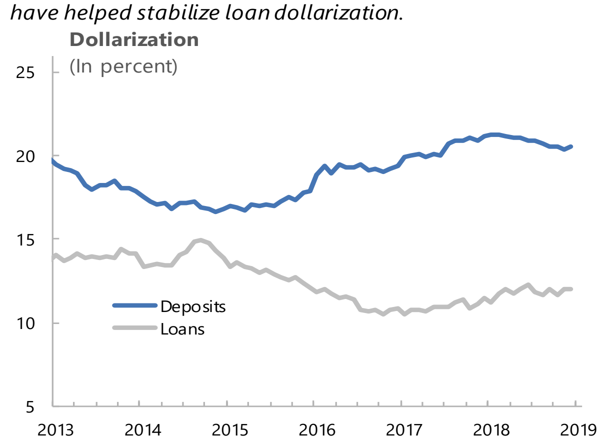
…which has weighed on credit growth…



…particularly to households.



Deposit dollarization has eased, while rising exports have helped stabilize loan dollarization.



1/ Adjusted for core inflation.

Sources: Jordanian authorities; and IMF staff estimates.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2018–25

	Act.	Proj.	Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025
Output and prices	(Percentage change, unless otherwise indicated)							
Real GDP at market prices	1.9	2.0	2.1	2.3	2.6	2.9	3.1	3.3
GDP deflator at market prices	1.8	1.6	1.9	2.5	2.5	2.5	2.5	2.5
Nominal GDP at market prices	3.7	3.6	4.0	4.9	5.2	5.5	5.7	5.9
Nominal GDP at market prices (JD millions)	29,984	31,058	32,313	33,882	35,632	37,582	39,716	42,052
Nominal GDP at market prices ($ millions)	42,291	43,805	45,575	47,789	50,257	53,008	56,017	59,312
Consumer price inflation (annual average)	4.5	0.3	1.5	1.7	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	3.6	0.7	0.8	2.5	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent) 1/	18.3	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)							
Fiscal operations								
Revenue and grants	26.1	24.7	27.0	26.0	25.5	24.5	24.3	24.0
Of which: grants	3.0	2.5	3.2	2.2	1.9	1.0	1.0	0.9
Expenditure 2/	29.8	29.7	30.0	30.0	29.9	29.6	29.3	29.1
Unidentified measures 3/	0.0	0.0	0.0	0.6	1.2	1.8	2.4	2.4
Overall fiscal balance 4/	-3.3	-5.0	-3.0	-3.4	-3.1	-3.3	-2.6	-2.6
Primary government balance (excluding grants)	-3.0	-3.8	-2.3	-1.6	-1.0	-0.3	0.4	0.4
NEPCO operating balance	-0.3	0.0	-0.5	-0.6	-0.5	-0.4	-0.4	-0.4
WAJ overall balance	-0.9	-1.1	-1.1	-0.8	-0.8	-0.8	-0.7	-0.7
Water Distribution Companies overall balance	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Combined public sector balance 5/	-4.2	-5.1	-4.0	-3.2	-2.4	-1.7	-0.9	-0.8
Government and guaranteed gross debt 6/	94.4	99.1	100.4	100.7	100.2	99.6	98.0	96.1
Government and guaranteed gross debt, net of SSC's holdings 6/	76.3	79.4	79.9	79.7	78.7	77.8	75.8	73.6
Of which: external debt	37.2	35.5	39.5	41.1	40.8	40.0	38.3	36.1
External sector								
Current account balance (including grants), *of which:*	-7.0	-2.9	-3.2	-3.6	-3.6	-3.6	-3.1	-2.8
Exports of goods, f.o.b. ($ billions)	7.8	8.4	8.7	9.2	9.7	10.3	11.0	11.6
Imports of goods, f.o.b. ($ billions)	18.1	17.4	18.1	18.4	19.1	19.8	20.5	21.3
Oil and oil products ($ billions)	3.8	3.1	3.2	3.0	3.1	3.2	3.3	3.3
Current account balance (excluding grants)	-10.6	-6.1	-6.9	-6.4	-6.1	-5.6	-5.0	-4.5
Private capital inflows (net)	2.4	1.9	2.2	2.6	2.8	3.5	3.7	4.1
Monetary sector	(Percentage change)							
Broad money	1.3	6.8	7.5	...	...	...	...	...
Net foreign assets	-19.3	1.7	23.5	...	...	...	...	...
Net domestic assets	9.1	8.2	3.3	...	...	...	...	...
Credit to private sector	5.2	4.7	5.6	...	...	...	...	...
Credit to central government	10.3	14.1	-3.8	...	...	...	...	...
Memorandum items:								
Gross usable international reserves ($ millions)	12,513	13,513	15,307	16,991	17,860	17,885	18,612	19,401
In months of prospective imports	6.7	7.0	7.7	8.3	8.4	8.1	8.0	8.1
In percent of reserve adequacy metric	97	98	104	111	111	106	107	107
Net international reserves ($ millions)	11,430	12,756	14,462	15,879	16,485	16,259	16,907	17,809
Population (millions) 7/	9.9	10.1	10.2	10.3	10.4	10.5	10.5	10.5
Nominal per capita GDP ($)	4,270	4,350	4,464	4,631	4,830	5,061	5,315	5,627
Real effective exchange rate (end of period, 2010=100) 8/	117.7	...	...	...	...	...	...	...
Percent change (+=appreciation; end of period)	4.5	...	...	...	...	...	...	...

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ The Department of Statistics changed the methodology of the Survey of Employment and Unemployment in 2017 following ILO recommendations.

2/ Includes other use of cash (i.e. off-budget expenditures).

3/ Estimated amount of fiscal measures that are need to meet the programmed fiscal adjustment.

4/ Includes statistical discrepancy.

5/ Defined as the sum of the primary central government balance (excl. grants and transfers to NEPCO and WAJ), NEPCO operating balance, WAJ overall balance, and, starting in 2019, Aqaba, Miyahuna, and Yarmouk Water Distribution Companies overall balance.

6/ Government's direct and guaranteed debt (including NEPCO and WAJ debt). SSC stands for Social Security Corporation. The authorities securitized domestic arrears amounting to 2.3 and 0.3 percent of GDP in 2019 and early 2020, respectively, part of which was previously assumed to be repaid over a three-year period.

7/ Data from the 2017 Revision of World Population Prospects of the UN population division.

8/ INS data. CBJ staff's estimates, based on updated trade weights, shows a more moderate pace of real appreciation over the past few years.

Table 2a. Jordanian Central Government: Summary of Fiscal Operations, 2018–25 1/
(In millions of Jordanian dinars)

	Act.	Prel.	Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025
Total revenue and grants	7,840	7,676	8,715	8,805	9,097	9,207	9,639	10,108
Domestic revenue	6,945	6,888	7,695	8,071	8,431	8,824	9,255	9,724
Tax revenue, *of which:*	4,724	4,822	5,647	5,927	6,180	6,453	6,754	7,080
Taxes on income and profits	965	1,020	1,269	1,322	1,387	1,460	1,540	1,628
Sales taxes	3,185	3,302	4,037	4,254	4,431	4,622	4,831	5,058
Taxes on foreign trade	293	277	264	269	275	280	286	292
Other taxes	281	223	78	82	86	91	96	102
Nontax revenue	2,221	2,065	2,047	2,144	2,252	2,371	2,501	2,644
Grants	895	789	1,020	734	666	383	383	384
Total expenditures, inc. other use of cash	8,933	9,220	9,692	10,171	10,641	11,142	11,620	12,229
Current expenditure	7,620	7,913	8,419	8,816	9,215	9,638	10,032	10,546
Wages and salaries	1,419	1,553	1,704	1,747	1,790	1,835	1,881	1,928
Interest payments	1,004	1,147	1,254	1,342	1,425	1,514	1,581	1,674
Domestic	648	729	840	857	939	1,019	1,097	1,176
External	357	418	414	485	486	495	484	498
Military and public security expenditure, *of which:*	2,482	2,545	2,686	2,817	2,962	3,124	3,302	3,496
Military expenditure	1,377	1,338	1,438	1,508	1,586	1,673	1,768	1,872
Subsidies	56	20	20	20	20	20	21	22
Transfers, *of which*:	2,363	2,324	2,388	2,505	2,613	2,718	2,796	2,948
Pensions	1,332	1,426	1,595	1,672	1,759	1,855	1,960	2,076
Cash transfers	161	140	110	110	110	110	110	110
Transfers to health fund, *of which:*	216	203	160	130	90	90	90	90
Health arrears clearance	130	97	70	40	0	0	0	0
Energy arrears clearance	54	70	0	44	84	62	0	0
Transfers to public sector institutions	293	199	221	233	235	247	261	277
Other transfers	308	285	302	316	336	354	374	396
Purchases of goods & services	296	324	367	385	405	427	451	478
Capital expenditure	948	990	1,273	1,355	1,425	1,503	1,589	1,682
Adjustment on receivables and payables (use of cash)	366	317	0	0	0	0	0	0
Total balance from above the line	-1,094	-1,544	-977	-1,366	-1,543	-1,935	-1,982	-2,122
Statistical discrepancy, net	90	1	0	0	0	0	0	0
Overall balance at current policies	-1,003	-1,543	-977	-1,366	-1,543	-1,935	-1,982	-2,122
Unidentified measures 2/	0	0	0	205	428	676	951	1,007
Overall balance after fiscal measures	-1,003	-1,543	-977	-1,161	-1,116	-1,259	-1,031	-1,114
Advances to water sector, *of which:*	419	512	505	365	370	252	319	313
Distribution companies		0	43	41	41	42	42	43
Financing	1,423	2,055	1,482	1,525	1,486	1,511	1,350	1,427
Foreign financing (net) 3/	590	194	1,353	720	295	172	-26	-111
Domestic financing (net)	833	1,860	129	805	1,191	1,339	1,375	1,538
CBJ on-lending of net IMF financing	-349	-293	62	202	203	205	94	-43
Other domestic bank financing	303	1,093	-418	95	453	570	685	950
Domestic nonbank financing	503	872	485	508	534	564	596	631
Use of deposits	377	112	0	0	0	0	0	0
Sale of non-financial assets	0	77	0	0	0	0	0	0
Memorandum items:								
NEPCO operating balance	-79	-3	-158	-218	-162	-164	-166	-168
WAJ overall balance, excluding project grants	-279	-332	-358	-279	-297	-302	-297	-292
Water distribution companies overall balance	12	-58	-43	-41	-41	-42	-42	-43
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-894	-1,184	-743	-552	-356	-128	167	177
Combined public balance (PC) 4/	-1,251	-1,578	-1,302	-1,090	-856	-636	-339	-327
Overall public balance, including grants	-1,337	-1,888	-1,481	-1,648	-1,563	-1,712	-1,481	-1,561
Social Security Corporation balance	1,044	1,172	1,222	1,299	1,379	1,448	1,512	1,570
Government and guaranteed gross debt	28,308	30,768	32,428	34,112	35,697	37,432	38,908	40,394
Government and guaranteed gross debt, net of SSC's holc	22,880	24,651	25,825	27,001	28,052	29,223	30,103	30,958
Of which: External	11,166	11,022	12,762	13,923	14,546	15,038	15,211	15,161
Stock of health arrears	352	110	40	0	0	0	0	0
Stock of energy arrears (fuel and electricity)	650	190	190	146	62	0	0	0
GDP at market prices	29,984	31,058	32,313	33,882	35,632	37,582	39,716	42,052

Sources: Jordanian authorities; and IMF staff estimates and projections.

1/ Starting 2019, the fiscal accounts consolidate the operations of 29 government units, with a neutral impact on the overall balance.

2/ Unidentified fiscal measures that will need to be implemented to meet program targets.

3/ Includes net issuance of domestic FX bonds.

4/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance, WAJ overall balance, and starting in 2019, water distribution companies overall balance.

Table 2b. Jordanian Central Government: Summary of Fiscal Operations, 2018–25 1/
(In percent of GDP)

	Act.	Prel.	Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025
Total revenue and grants	26.1	24.7	27.0	26.0	25.5	24.5	24.3	24.0
Domestic revenue	23.2	22.2	23.8	23.8	23.7	23.5	23.3	23.1
Tax revenue, *of which*:	15.8	15.5	17.5	17.5	17.3	17.2	17.0	16.8
Taxes on income and profits	3.2	3.3	3.9	3.9	3.9	3.9	3.9	3.9
Sales taxes 2/	10.6	10.6	12.5	12.6	12.4	12.3	12.2	12.0
Taxes on foreign trade	1.0	0.9	0.8	0.8	0.8	0.7	0.7	0.7
Other taxes	0.9	0.7	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	7.4	6.6	6.3	6.3	6.3	6.3	6.3	6.3
Grants	3.0	2.5	3.2	2.2	1.9	1.0	1.0	0.9
Total expenditures, inc. other use of cash	29.8	29.7	30.0	30.0	29.9	29.6	29.3	29.1
Current expenditure	25.4	25.5	26.1	26.0	25.9	25.6	25.3	25.1
Wages and salaries	4.7	5.0	5.3	5.2	5.0	4.9	4.7	4.6
Interest payments	3.3	3.7	3.9	4.0	4.0	4.0	4.0	4.0
Domestic	2.2	2.3	2.6	2.5	2.6	2.7	2.8	2.8
External	1.2	1.3	1.3	1.4	1.4	1.3	1.2	1.2
Military and public security expenditure, *of which:*	8.3	8.2	8.3	8.3	8.3	8.3	8.3	8.3
Military expenditure	4.6	4.3	4.5	4.5	4.5	4.5	4.5	4.5
Subsidies	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfers, *of which*:	7.9	7.5	7.4	7.4	7.3	7.2	7.0	7.0
Pensions	4.4	4.6	4.9	4.9	4.9	4.9	4.9	4.9
Cash transfers	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Transfers to health fund, *of which:*	0.7	0.7	0.5	0.4	0.3	0.2	0.2	0.2
Health arrears clearance	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Energy arrears clearance	0.2	0.2	0.0	0.1	0.2	0.2	0.0	0.0
Transfers to public sector institutions	1.0	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Other transfers	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Purchases of goods & services	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Capital expenditure	3.2	3.2	3.9	4.0	4.0	4.0	4.0	4.0
Adjustment on receivables and payables (use of cash)	1.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	-3.6	-5.0	-3.0	-4.0	-4.3	-5.1	-5.0	-5.0
Statistical discrepancy, net	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance at current policies	-3.3	-5.0	-3.0	-4.0	-4.3	-5.1	-5.0	-5.0
Unidentified measures 3/	0.0	0.0	0.0	0.6	1.2	1.8	2.4	2.4
Overall balance after fiscal measures	-3.3	-5.0	-3.0	-3.4	-3.1	-3.3	-2.6	-2.6
Advances to water sector, *of which:*	1.4	1.6	1.6	1.1	1.0	0.7	0.8	0.7
Distribution companies		0.0	0.1	0.1	0.1	0.1	0.1	0.1
Financing	4.7	6.6	4.6	4.5	4.2	4.0	3.4	3.4
Foreign financing (net) 4/	2.0	0.6	4.2	2.1	0.8	0.5	-0.1	-0.3
Domestic financing (net)	2.8	6.0	0.4	2.4	3.3	3.6	3.5	3.7
CBJ on-lending of net IMF financing	-1.2	-0.9	0.2	0.6	0.6	0.5	0.2	-0.1
Other domestic bank financing	1.0	3.5	-1.3	0.3	1.3	1.5	1.7	2.3
Domestic nonbank financing	1.7	2.8	1.5	1.5	1.5	1.5	1.5	1.5
Use of deposits	1.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Sale of non-financial assets	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
NEPCO operating balance	-0.3	0.0	-0.5	-0.6	-0.5	-0.4	-0.4	-0.4
WAJ overall balance, excluding project grants	-0.9	-1.1	-1.1	-0.8	-0.8	-0.8	-0.7	-0.7
Water distribution companies overall balance	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-3.0	-3.8	-2.3	-1.6	-1.0	-0.3	0.4	0.4
Combined public balance (PC) 5/	-4.2	-5.1	-4.0	-3.2	-2.4	-1.7	-0.9	-0.8
Overall public balance, including grants	-4.5	-6.1	-4.6	-4.9	-4.4	-4.6	-3.7	-3.7
Social Security Corporation balance	3.5	3.8	3.8	3.8	3.9	3.9	3.8	3.7
Government and guaranteed gross debt	94.4	99.1	100.4	100.7	100.2	99.6	98.0	96.1
Government and guaranteed gross debt, net of SSC's holdings	76.3	79.4	79.9	79.7	78.7	77.8	75.8	73.6
Of which: External	37.2	35.5	39.5	41.1	40.8	40.0	38.3	36.1
Stock of health arrears	1.2	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Stock of energy arrears (fuel and electricity)	2.2	0.6	0.6	0.4	0.0	0.0	0.0	0.0
GDP at market prices (JD millions)	29,984	31,058	32,313	33,882	35,632	37,582	39,716	42,052

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ Starting 2019, the fiscal accounts consolidate the operations of 29 government units, with a neutral impact on the overall balance.

2/ The decline in the sales tax ratio reflects the impact of specific fixed excises over the projection period.

3/ Unidentified fiscal measures that will need to be implemented to meet program targets.

4/ Includes net issuance of domestic FX bonds.

5/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance, WAJ overall balance, and starting in 2019, water distribution companies overall balance.

Table 2c. Jordanian Central Government: Summary of Quarterly Fiscal Operations, 2018–20

(In millions of Jordanian dinars)

	2018					2019					2020				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
			Act.				Act.		Prel.				Proj.		
Total revenue and grants	1,609	1,828	1,886	2,516	7,840	1,697	1,839	1,862	2,278	7,676	1,865	2,200	2,000	2,649	8,715
Domestic revenue	1,537	1,822	1,765	1,821	6,945	1,636	1,797	1,765	1,689	6,888	1,786	2,146	1,875	1,888	7,695
Tax revenue, *of which*:	1,063	1,291	1,198	1,171	4,724	1,104	1,169	1,327	1,223	4,822	1,383	1,616	1,363	1,285	5,647
Taxes on income and profits	201	415	194	155	965	257	418	221	124	1,020	309	558	256	146	1,269
Sales taxes	713	734	859	879	3,185	702	627	971	1,004	3,302	988	973	1,021	1,055	4,037
Taxes on foreign trade	72	73	75	74	293	70	64	71	71	277	67	66	66	65	264
Other taxes	78	69	71	63	281	75	61	64	24	223	19	19	20	20	78
Nontax revenue	474	531	567	649	2,221	532	628	439	466	2,065	403	530	512	603	2,047
Grants	72	6	121	695	895	61	42	97	588	789	79	54	126	761	1,020
Total expenditures, inc. other use of cash	2,322	2,013	2,162	2,436	8,933	2,185	2,211	2,434	2,389	9,220	2,232	2,622	2,362	2,476	9,692
Current expenditure	1,951	1,795	1,812	2,061	7,620	1,861	2,006	2,071	1,975	7,913	1,963	2,201	2,075	2,179	8,419
Wages and salaries	349	357	345	368	1,419	381	392	392	389	1,553	415	432	426	432	1,704
Interest payments	248	227	270	259	1,004	281	262	293	310	1,147	300	302	321	331	1,254
Domestic	169	132	192	155	648	206	139	234	150	729	217	203	214	205	840
External	79	95	79	104	357	75	123	59	160	418	82	100	107	125	414
Military and public security expenditure	599	625	631	627	2,482	631	598	673	643	2,545	632	683	690	681	2,686
Subsidies	0	0	11	45	56	0	20	0	0	20	0	4	5	11	20
Transfers, *of which*:	687	520	486	670	2,363	501	668	614	541	2,324	543	687	561	596	2,388
Pensions	328	333	331	340	1,332	343	349	353	382	1,426	391	395	397	411	1,595
Cash transfers	155	0	0	6	161	0	140	0	0	140	0	110	0	0	110
Transfer to health fund	65	54	21	77	216	58	5	45	95	203	39	45	26	50	160
Energy arrears clearance	0	0	1	53	54	0	28	23	19	70	0	0	0	0	0
Transfers to public sector institutions	73	78	67	74	293	48	47	58	46	199	45	55	59	62	221
Other transfers	66	56	67	119	308	52	100	135	-1	285	68	81	79	73	302
Purchases of goods & services	68	66	69	93	296	67	66	99	92	324	74	93	72	128	367
Capital expenditure	129	224	196	399	948	143	169	222	456	990	139	371	286	477	1,273
Adjustment on receivables and payables (use of cash)	243	-7	154	-24	366	181	36	141	-42	317	130	50	0	-180	0
Overall balance from above the line	-713	-184	-276	80	-1,094	-489	-372	-572	-111	-1,544	-367	-422	-362	174	-977
Statistical discrepancy, net	34	-55	10	102	90	132	-171	29	8	1	0	0	0	0	0
Overall balance at current policies	-680	-239	-266	182	-1,003	-621	-201	-601	-119	-1,543	-367	-422	-362	174	-977
Unidentified measures 1/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance after fiscal measures	-680	-239	-266	182	-1,003	-621	-201	-601	-119	-1,543	-367	-422	-362	174	-977
Advances to water sector	99	93	117	110	419	123	117	146	126	512	136	143	122	104	505
Financing	778	332	384	-71	1,423	744	318	747	245	2,055	503	565	484	-69	1,482
Foreign financing (net) 2/	-28	-110	199	528	590	100	100	155	-160	194	-17	1,035	-41	376	1,353
Domestic financing (net)	806	442	185	-600	833	644	218	592	406	1,860	520	-470	525	-446	129
CBJ on-lending of net IMF financing	-87	-87	-71	-105	-349	-84	-84	-62	-62	-293	-52	-52	-35	201	62
Other domestic bank financing	245	253	256	-452	303	324	144	406	220	1,093	349	-513	493	-747	-418
Domestic nonbank financing	260	193	88	-38	503	401	171	119	181	872	223	95	66	100	485
Use of deposits	388	83	-89	-5	377	-6	-80	130	68	112	0	0	0	0	0
Sale of non-financial assets	0	0	0	0	0	10	67	0	0	77	0	0	0	0	0
Memorandum items:															
NEPCO operating balance	-18	-20	-22	-19	-79	30	-36	-22	24	-3	-9	-74	-60	-15	-158
WAJ overall balance, excluding project grants	-68	-80	-74	-63	-279	-69	-70	-99	-94	-332	-74	-76	-107	-101	-358
Water distribution companies overall balance	7	-10	-5	19	12	-3	-21	-21	-13	-58	-11	-11	-11	-11	-43
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-503	-19	-117	-255	-894	-401	18	-405	-398	-1,184	-146	-174	-166	-257	-743
Combined public balance (PC) 3/	-589	-119	-212	-337	-1,251	-442	-108	-546	-481	-1,578	-240	-335	-344	-384	-1,302
Government and guaranteed gross debt	27,720	27,931	28,416	28,308	28,308	28,915	29,518	30,051	30,768	30,768	31,427	32,059	32,680	32,428	32,428
Government and guaranteed gross debt, net of SSC's holdings (IT)	22,292	22,502	22,988	22,880	22,880	22,797	23,401	23,933	24,651	24,651	25,086	25,623	26,178	25,825	25,825

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ Unidentified fiscal measures that will need to be implemented to meet program targets.

2/ Includes net issuance of domestic FX bonds.

3/ Primary government balance excluding grants and transfers to NEPCO and WAJ, plus NEPCO operating balance, WAJ overall balance, and, starting in 2019, water distribution companies overall balance.

Table 2d. NEPCO Operating Balance and Financing, 2018–25

(In millions of Jordanian dinars)

	2018	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019	2020	2021	2022	2023	2024	2025
	Act.	Prel.	Prel.	Prel.	Proj.	Proj.	Proj.					
Electricity sales 1/	1,618	394	370	407	371	1,542	1,582	1,635	1,690	1,720	1,751	1,782
Expenses 2/	1,697	364	405	429	347	1,546	1,740	1,852	1,852	1,884	1,917	1,951
Purchase of electricity	1,542	321	363	396	305	1,386	1,561	1,664	1,651	1,676	1,700	1,726
Depreciation	29	7	7	7	7	29	30	30	31	31	31	31
Interest payments 3/	108	28	31	29	26	115	121	129	140	148	156	164
Tax on LNG	78	0	0	0	0	0	0	0	0	0	0	0
Other expenses	-59.9	8	4	-4	8	16	28	29	30	30	30	30
Operating balance (QPC)	-79	30	-36	-22	24	-3	-158	-218	-162	-164	-166	-168
Total net domestic financing	79	-30	36	22	-24	3	158	218	162	164	166	168
Banks	-2	60	36	22	-71	46	173	233	177	164	166	168
Loans and bonds	83	60	36	22	0	117	173	233	177	164	166	168
Overdrafts	-85	0	0	0	-71	-71	0	0	0	0	0	0
ITFC loan	-71	0	0	0	0	0	0	0	0	0	0	0
Other items 4/	152	0	0	400	47	447	15	15	15	0	0	0
Increase in payables	0	-90	0	-400	0	-490	0	0	0	0	0	0
Direct transfer from central government	0	0	0	-400	0	-400	0	0	0	0	0	0
To cover losses and repay arrears	0	0	0	-400	0	-400	0	0	0	0	0	0
To repay loans	0	0	0	0	0	0	0	0	0	0	0	0
Payables to the private sector	0	0	0	0	0	0	0	0	0	0	0	0
Of which: Increase in arrears	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Cumulative automatic distribution tariff adjustment (percentage above 2016Q4 average tariff)	23	13	13	13	13	13	...	...	...	...	...	...
Brent oil prices (USD per barrel)	72	64	68	63	64	65	64	61	60	59	59	59
Outstanding loans and bonds (stocks, end-of-period)	2,373	2,433	2,469	2,490	2,419	2,419	2,577	2,795	2,957	3,121	3,287	3,455
Overdrafts	139	139	139	139	68	68	68	68	68	68	68	68
Total payables	3,267	3,177	3,177	2,777	2,777	2,777	2,777	2,777	2,777	2,777	2,777	2,777
to government 5/	2,819	2,729	2,729	2,329	2,329	2,329	2,329	2,329	2,329	2,329	2,329	2,329
to private sector	448	448	448	448	448	448	448	448	448	448	448	448
Of which: arrears (IT)	0	0	0	0	0	0	0	0	0	0	0	0

Sources: NEPCO; Jordanian authorities; and IMF staff estimates.

1/ Projections assume revenue growth of 2.8 percent in 2020, and 3.5 percent in 2021 and 2022, reflecting conservative assumptions under new export agreements with Jerusalem and with Iraq (under discussions).

2/ Projected costs assume saving measures of 3 percent of the annual cost from 2022 onwards (about JD55 million per year). These could arise from re-negotiations of LNG contracts and PPAs, and/or the debt optimization plan.

3/ Interest payments exclude interest on account payables to the government.

4/ Includes changes in accounts receivable, depreciation, project expenditures, and other items. In 2018Q4 and 2019Q2, it includes disbursements of a EBRD loan.

5/ Payables to the government include transfers from the government to NEPCO; they are excluded from the computation of the stock of arrears.

Table 2e. WAJ Balance and Financing, 2018–25
(In millions of Jordanian dinars)

	2018	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019	2020	2021	2022	2023	2024	2025
	Act.	Prel.	Prel.	Prel.	Proj.				Proj.			
WAJ Balance:												
Total Revenues, *of which:*	59	8	11	8	12	38	47	48	48	48	48	48
of which:						0						
Sales of goods and services	52	8	11	8	12	38	47	48	48	48	48	48
Current Expenditure 1/	176	42	44	39	40	164	165	156	163	164	170	175
Salaries, wages and allowances 1/	22	5	5	5	6	22	23	23	25	26	27	29
Social Security contributions	2	1	1	1	1	2	3	3	4	5	7	10
Use of goods and services	22	6	8	10	5	28	31	32	33	34	35	35
Disi Project operational charge	49	11	11	7	11	40	40	41	42	43	44	45
Samra operational charge	13	4	4	3	3	13	20	20	26	27	27	28
Arrears clearance	…	27	…	…	…	27	37	…	…	…	…	…
Interest payments, *of which:*	68	15	16	13	14	59	49	37	33	29	30	28
Interest payments on domestic loans	61	15	12	13	11	50	37	25	20	16	16	13
Interest payments on foreign loans	7	0	4	0	3	9	12	12	13	13	14	15
Primary balance 2/	-49	-19	-17	-18	-14	-67	-69	-71	-82	-87	-92	-99
Capital Expenditure	161	35	37	68	66	206	203	171	182	186	175	165
WAJ Overall balance	-279	-69	-70	-99	-94	-332	-358	-279	-297	-302	-297	-292
Overall balance of Distribution Companies 3/	12	-3	-21	-21	-13	-58	-43	-41	-41	-42	-42	-43
Overall balance Consolidated Water Sector 4/	-267	-72	-91	-120	-107	-390	-401	-320	-338	-343	-340	-335
Total net financing	267	72	91	120	107	390	401	320	338	343	340	335
Grants	24	4	2	17	25	48	55	50	53	54	56	57
Transfers from Central Government 5/	209	30	31	149	114	323	306	230	245	249	244	238
Loans (net borrowing)	-169	-67	-61	-81	-65	-274	-178	-95	-85	37	-35	-35
of which:												
Domestic loans	-203	-78	-54	-96	-94	-322	-218	-135	-125	-3	-75	-75
Foreign loans	34	12	-7	15	29	48	40	40	40	40	40	40
Others 6/	203	104	118	36	34	292	218	135	125	3	75	75
Memorandum items (stocks, end-of-period):												
Domestic payment arrears of WAJ in JD million 7/	27	0	39	0	0	0	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million 8/	150	167	184	72	94	94	137	178	219	260	302	345
Outstanding loans, *of which:*	2,062	2,025	1,996	2,174	2,222	2,112	2,240	2,375	2,535	2,821	3,030	3,233
Domestic loans and bonds	952	873	820	717	623	630	412	277	152	149	74	-1
Foreign loans	432	444	437	464	492	480	520	560	600	640	680	720
Advances from Central Government	678	708	739	993	1107	1002	1308	1538	1783	2032	2276	2514
Grants and foreign loans to capital expenditure ratio (in percent)	42	37	31	44	58	49	52	58	57	56	61	65
Grants to capital expenditure ratio (in percent)	15	12	6	24	38	23	27	29	29	29	32	35
Effective interest rate (in percent), *of which:*	3.37	3.00	2.79	2.51	2.53	2.85	2.33	1.67	1.37	1.16	1.06	0.93
Domestic loans (in percent)	5.25	6.31	5.05	6.31	5.90	5.29	5.88	6.07	7.23	10.54	10.54	17.63
Foreign loans (in percent)	1.85	0.40	4.76	0.37	2.73	1.97	2.52	2.36	2.23	2.23	2.23	2.23

Sources: Jordanian authorities; and IMF staff estimates. Projections for 2019 onwards reflect latest numbers in the 2019 draft Budget Law.

1/ Including other expenses such as pensions.

2/ Excluding interest payments and grants.

3/ The sum of the overall balances of Aqaba, Miyahuna and Yarmouk Water Companies.

4/ The sum of the overall balances of the distribution companies and WAJ.

5/ Information from the Ministry of Finance.

6/ Including settlement of liabilities, capital and other government support, installments of centralized debt. In 2018, it includes accumulation of arrears for WAJ. Before 2019, it includes accumulation of arrears of distribution companies.

7/ Arrears owed by WAJ only, to all entities. Excludes advances from Central Government for which WAJ does not pay interest and that do not have established maturity.

8/ Arrears owed by Aqaba, Miyahuna and Yarmouk Distribution Companies. Excludes advances from Central Government for which Aqaba, Miyahuna and Yarmouk Distribution Companies do not pay interest. These arrears were cleared in April 2019 through a one-off settlement of intra-governmental liabilities among the water distribution companies, NEPCO, and the ministry of finance.

Table 3a. Summary Balance of Payments, 2018–25
(In millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Proj.			Proj.			
Current account (CA)	-2,973	-1,283	-1,449	-1,730	-1,792	-1,887	-1,740	-1,689
Trade balance	-10,321	-9,075	-9,320	-9,217	-9,356	-9,460	-9,534	-9,630
Exports f.o.b.	7,757	8,366	8,735	9,174	9,724	10,311	10,960	11,649
Imports f.o.b.	18,078	17,441	18,055	18,391	19,080	19,771	20,494	21,279
Energy	3,754	3,126	3,201	3,007	3,131	3,188	3,253	3,320
Non-energy	14,324	14,315	14,854	15,384	15,949	16,582	17,240	17,959
Services and income (net), *of which:*	2,283	2,823	2,692	2,652	2,789	2,996	3,166	3,373
Travel receipts	5,256	5,795	6,191	6,587	6,968	7,372	7,743	8,133
Current transfers (net), *of which:*	5,065	4,968	5,179	4,835	4,776	4,577	4,627	4,568
Public grants	1,523	1,387	1,684	1,318	1,277	1,062	1,081	991
Remittances	3,308	3,340	3,373	3,442	3,512	3,600	3,708	3,819
Capital and financial account 1/	2,073	55	1,341	1,798	1,840	1,128	2,322	2,719
Public sector, *of which:* 2/	539	-1,195	-60	174	16	-1,222	-228	-230
Foreign direct investment	964	891	1,000	1,200	1,400	1,800	2,000	2,400
Portfolio flows (private)	41	-69	0	25	25	50	50	49
Other capital flows	528	428	400	400	400	500	500	500
Errors and omissions	-1,033	-405	0	0	0	0	0	0
Overall balance	-1,933	-1,634	-108	68	49	-759	581	1,030
Financing	1,933	1,634	108	-68	-49	759	-581	-1,030
Reserves (+ = decrease)	954	-433	-1,803	-1,694	-893	-34	-757	-841
Commercial banks' NFA (+ = decrease)	905	1,054	-583	181	1	63	-277	-329
Program financing (+ = increase)	75	1,012	2,493	1,444	843	729	452	140
Official budget support	568	1,260	2,406	1,176	580	479	372	254
World Bank	473	810	1,146	331	84	36	26	18
Bilateral loans	95	449	1,259	845	496	443	345	236
IMF (net)	-493	-248	88	267	263	250	80	-114
Of which: Fund purchases	0	166	284	285	287	289	145	0
Memorandum items:								
Gross reserves	14,577	15,405	17,208	18,901	19,794	19,828	20,585	21,426
Gross usable reserves 3/	12,513	13,513	15,307	16,991	17,860	17,870	18,580	19,369
In percent of the IMF Reserve Adequacy Metric	97	98	104	111	111	106	107	106
In months of next year's imports of GNFS	6.7	7.0	7.7	8.3	8.4	8.0	8.0	8.0
CA (percent of GDP)	-7.0	-2.9	-3.2	-3.6	-3.6	-3.6	-3.1	-2.8
CA ex-grants (percent of GDP)	-10.6	-6.1	-6.9	-6.4	-6.1	-5.6	-5.0	-4.5
CA ex-grants and energy imports (percent of GDP)	-1.8	1.0	0.1	-0.1	0.1	0.5	0.8	1.1
Energy imports	8.9	7.1	7.0	6.3	6.2	6.0	5.8	5.6
Public grants	3.6	3.2	3.7	2.8	2.5	2.0	1.9	1.7
Export growth (percent)	3.1	7.9	4.4	5.0	6.0	6.0	6.3	6.3
Import growth (percent)	-0.8	-3.5	3.5	1.9	3.7	3.6	3.7	3.8
Energy (percent)	23.9	-16.7	2.4	-6.1	4.1	1.8	2.0	2.1
Non-energy (percent)	-5.8	-0.1	3.8	3.6	3.7	4.0	4.0	4.2
Travel growth (percent)	13.2	10.2	6.8	6.4	5.8	5.8	5.0	5.0
Remittances growth (percent)	-1.1	1.0	1.0	2.0	2.0	2.5	3.0	3.0
Total external debt (percent of GDP)	69.0	68.6	71.9	72.6	71.4	69.7	67.2	63.9
Of which: Public external debt (percent of GDP)	37.2	35.5	39.5	41.1	40.8	40.0	38.3	36.1
Nominal GDP	42,291	43,805	45,575	47,789	50,257	53,008	56,017	59,312

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ Central bank reserve accummulation, commercial banks' NFAs, and program financing are shown below-the-line.

2/ Includes CBJ liabilities, including GCC deposits in $1.2 billion in 2018, with repayment in 2023.

3/ Including gold and excluding commercial banks' FX deposits at the CBJ, bilateral accounts and forward contracts.

Table 3b. External Financing Requirements and Sources, 2018–25

(In millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025
	Act.	Proj.			Proj.			
Gross Financing Requirements	**5,509**	**4,665**	**5,037**	**3,438**	**4,468**	**4,601**	**3,506**	**3,916**
Current account deficit (excl. grants)	4,496	2,670	3,133	3,048	3,068	2,949	2,822	2,680
of which: Energy imports	3,754	3,126	3,201	3,007	3,131	3,188	3,253	3,320
Amortization of public sector loans 1/	520	582	458	372	376	447	619	622
Amortization of sovereign bonds 2/	0	1,000	1,250	0	1,000	0	0	500
GCC deposits at the CBJ	0	0	0	0	0	1,166	0	0
IMF repurchases	493	413	196	18	24	38	65	114
Gross Financing Sources	**5,021**	**4,078**	**4,150**	**3,670**	**4,494**	**3,867**	**3,746**	**4,503**
FDI, net	964	891	1,000	1,200	1,400	1,800	2,000	2,400
Public grants	1,523	1,387	1,684	1,318	1,277	1,062	1,081	991
Public sector borrowing	280	317	669	566	412	412	412	412
Issuance of sovereign bonds 3/	0	0	1,000	0	1,000	0	0	500
GCC deposits at the CBJ	1,166	0	0	0	0	0	0	0
Non-resident purchases of local debt	-193	50	0	0	0	0	0	0
CBJ other financing (net) 4/	-193	20	-20	-20	-20	-20	-20	-20
Private capital flows, net 5/	1,474	1,414	-182	606	426	613	273	221
Errors and omissions	-1,033	-405	0	0	0	0	0	0
Change in reserves (+ = increase)	-954	433	1,803	1,694	893	34	757	841
Total Financing Needs	**568**	**1,425**	**2,689**	**1,462**	**867**	**767**	**517**	**254**
Identified official public external financing	**568**	**1,425**	**2,689**	**1,462**	**867**	**767**	**517**	**254**
Identified official budget support	568	1,260	2,406	1,176	580	479	372	254
IMF purchases	0	166	284	285	287	289	145	0
Unidentified official public external financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Budget needs	0	0	0	0	0	0	0	0
Budget needs (below line)	0	0	0	0	0	0	0	0
Off-budget needs	0	0	0	0	0	0	0	0
Memorandum Items:								
Gross Usable Reserves	12,513	13,513	15,307	16,991	17,860	17,870	18,580	19,369
In percent of the IMF Reserve Adequacy Metric 6/	97	98	104	111	111	106	107	106
In months of next year's imports of GNFS	6.7	7.0	7.7	8.3	8.4	8.0	8.0	8.0

Sources: Jordanian authorities; and Fund staff estimates and projections.
1/ Includes project loans and Arab Monetary Fund, and excludes IMF repurchases.
2/ Expected to be met with market borrowing and continued external donor support, as per commitments made at the London Initiative.
3/ Includes guaranteed and non-guaranteed bonds.
4/ Includes CBJ other accounts receivable/payable (net) minus deposit flows (net), excluding GCC deposits.
5/ Includes changes in commercial banks' NFA.
6/ The IMF reserve metric is calculated as a weighted sum of exports, broad money, short-term debt, and other portfolio liabilities.

Table 3c. Foreign Exchange Needs and Sources, 2018–25

(In millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025
		Proj.						
General Government Gross Needs	**2,835**	**3,706**	**3,066**	**2,454**	**3,213**	**3,298**	**1,624**	**2,149**
NEPCO energy imports	1,462	955	747	464	477	486	494	503
Net interest payments	298	307	415	450	436	461	446	410
Amortization of external debt 1/	1,076	2,044	1,904	390	1,400	1,651	684	1,236
Amortization of domestic debt in FX	0	400	0	1,150	900	700	0	0
General Government Sources	**3,669**	**2,669**	**3,636**	**3,319**	**3,875**	**2,462**	**1,638**	**1,903**
Public grants	1,523	1,387	1,684	1,318	1,277	1,062	1,081	991
Public sector borrowing 2/	280	482	952	851	698	700	557	412
Sovereign bonds 3/	0	0	1,000	0	1,000	0	0	500
Local bonds in FX	700	800	0	1,150	900	700	0	0
GCC deposits at the CBJ	1,166	0	0	0	0	0	0	0
General Government Balance	**833**	**-1,037**	**570**	**865**	**662**	**-836**	**14**	**-246**
Financing under the EFF	**568**	**1,260**	**2,406**	**1,176**	**580**	**479**	**372**	**254**
Official financing under the EFF	568	1,260	2,406	1,176	580	479	372	254
General Government Balance under the EFF	**1,401**	**223**	**2,976**	**2,042**	**1,242**	**-357**	**385**	**8**
CBJ Balance under the EFF	**761**	**-383**	**-1,803**	**-1,694**	**-893**	**-34**	**-757**	**-841**
Public Sector Net Balance	**2,162**	**-160**	**1,173**	**348**	**350**	**-391**	**-371**	**-834**

Sources: Jordanian authorities; and Fund staff estimates and projections.

1/ Includes general government and CBJ (incl. IMF repurchases and repayment of GCC deposits).

2/ Includes project loans, Arab Monetary Fund, IMF purchases, and unidentified financing.

3/ Includes guaranteed and non-guaranteed bonds.

Table 3d. External Budget Financing, 2018–25

(In millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.	Proj.					
Budget grants	**1,052**	**972**	**1,277**	**920**	**911**	**540**	**541**	**541**
EU	51	82	76	45	35	40	41	41
GCC 1/	100	99	400	100	100	0	0	0
United States	755	745	745	745	745	0	0	0
Other 2/	147	46	56	29	30	500	500	500
GCC capital grants								
GCC grants received by CBJ	0	0	0	0	0	0	0	0
GCC grants transferred from CBJ to MOF	224	159	162	116	28	0	0	0
Loans	**722**	**1,471**	**2,617**	**1,388**	**792**	**690**	**583**	**466**
Multilateral	**654**	**1,061**	**1,371**	**543**	**295**	**248**	**238**	**229**
Arab Monetary Fund	155	212	212	212	212	212	212	212
Islamic Development Bank	26	40	13	0	0	0	0	0
World Bank	473	810	1,146	331	84	36	26	18
Bilateral	**69**	**410**	**1,246**	**845**	**496**	**443**	**345**	**236**
EU	0	113	336	227	0	0	0	0
France	69	16	274	176	143	127	129	118
Germany	0	181	252	170	114	116	117	118
Italy	0	0	35	23	39	0	0	0
Japan	0	100	200	100	100	100	0	0
Kuwait	0	0	100	100	100	100	100	0
Saudi Arabia	0	0	25	25	0	0	0	0
UAE	0	0	25	25	0	0	0	0
Eurobond issuance	**0**	**0**	**1,000**	**0**	**1,000**	**0**	**0**	**500**
Guaranteed	0	0	0	0	0	0	0	0
Non-guaranteed	0	0	1,000	0	1,000	0	0	500

Sources: Jordanian authorities; and IMF staff estimates and projections.

1/ Grants pledged at the 2018 Mecca Summit and USD 300 million grant from UAE to be disbursed in 2020:Q2 through 2021:Q1.

2/ Includes the grant component from the Concessional Financing Facility and in 2023-5 expected disbursements under new MOUs.

Table 4a. Jordan: Summary Monetary Survey, 2018–25

	2018	2019	2020	2021	2022	2023	2024	2025
					Proj.			
(Stocks, in millions of Jordanian dinars)								
Net foreign assets	7,288	7,415	9,159	10,123	10,589	11,228	11,916	12,826
Central bank	9,097	9,971	11,302	12,395	12,862	13,545	14,037	14,714
Commercial banks	-1,809	-2,557	-2,144	-2,272	-2,273	-2,318	-2,121	-1,889
Net domestic assets	26,067	28,203	29,144	30,692	32,824	34,951	37,439	40,321
Net claims on general government	10,904	12,006	11,812	12,114	12,821	13,658	14,506	15,456
Net claims on central budgetary government 1/	8,113	9,256	8,904	9,078	9,622	10,295	10,976	11,758
Net claims on NEPCO	2,007	1,983	2,141	2,270	2,432	2,596	2,763	2,931
Net claims on other own budget agencies 2/	-13	-66	-66	-66	-66	-66	-66	-66
Claims on other public entities	797	833	833	833	833	833	833	833
Claims on financial institutions	623	728	728	728	728	728	728	728
Claims on the private sector	23,697	24,820	26,205	27,700	29,375	30,916	32,806	34,788
Other items (net)	-9,156	-9,350	-9,600	-9,850	-10,100	-10,350	-10,600	-10,650
Broad money	33,356	35,617	38,303	40,815	43,412	46,179	49,355	53,147
Currency in circulation	4,296	4,517	4,780	5,012	5,266	5,533	5,839	6,208
Jordanian dinar deposits	22,892	24,725	26,650	28,821	30,898	33,127	35,465	38,255
Foreign currency deposits	6,168	6,376	6,872	6,981	7,248	7,520	8,050	8,684
(Flows, in millions of Jordanian dinars)								
Net foreign assets	-1,744	126	1,744	965	466	639	688	910
Net domestic assets	2,167	2,135	942	1,547	2,132	2,128	2,488	2,882
Net claims on general government	902	1,102	-194	303	706	837	847	950
Net claims on Central Budgetary Government	759	1,143	-352	173	544	673	681	782
Net claims on NEPCO	168	-24	158	129	162	164	166	168
Net claims on other own budget agencies	-182	-53	0	0	0	0	0	0
Claims on financial institutions	157	36	0	0	0	0	0	0
Claims on the private sector	1,171	1,123	1,386	1,494	1,676	1,540	1,891	1,982
Other items (net)	-56	-195	-250	-250	-250	-250	-250	-50
Broad money	423	2,262	2,686	2,512	2,598	2,766	3,176	3,792
Currency in circulation	-30	220	264	232	254	266	306	369
Jordanian dinar deposits	-18	1,834	1,925	2,171	2,078	2,228	2,339	2,790
Foreign currency deposits	471	208	496	109	266	272	531	633
Memorandum items:								
Year-on-year broad money growth (percent)	1.3	6.8	7.5	6.6	6.4	6.4	6.9	7.7
Year-on-year private sector credit growth (percent)	5.2	4.7	5.6	5.7	6.0	5.4	6.1	6.0
Foreign currency/total deposits (percent)	21.2	20.5	20.5	19.5	19.0	18.5	18.5	18.5
Private sector credit/total deposits (percent)	81.5	79.8	78.2	77.4	77.0	76.1	75.4	74.1
Currency in circulation/JD deposits (percent)	18.8	18.3	17.9	17.4	17.0	16.7	16.5	16.2
Money multiplier (for JD liquidity)	3.7	3.6	3.7	3.7	3.7	3.7	3.7	3.7

Sources: Jordanian authorities; and IMF staff estimates and projections.

1/ Includes SBA support onlent to the government by the CBJ.

2/ Includes WAJ.

Table 4b. Jordan: Summary Accounts of the Central Bank of Jordan, 2018–25

	2018	2019	2020	2021	2022	2023	2024	2025
		Proj.						
(Stocks, in millions of Jordanian dinars)								
Net foreign assets	9,097	9,971	11,302	12,395	12,862	13,545	14,037	14,714
Foreign assets	11,052	11,679	12,958	14,159	14,792	14,826	15,375	15,971
Of which: Bilateral accounts	767	767	767	767	767	767	767	767
Of which: encumbered due to forwards or swaps	686	643	643	643	643	643	643	643
Foreign liabilities	1,954	1,708	1,656	1,763	1,930	1,281	1,337	1,257
Of which: Net Fund Position	542	356	418	608	794	972	1,029	948
Of which: GCC grants-related	1,300	1,245	1,130	1,048	1,028	201	201	201
Net domestic assets	-1,825	-1,871	-2,691	-3,151	-3,034	-3,040	-2,813	-2,632
Net claims on central budgetary government 1/	786	537	599	721	845	969	982	857
Net claims on own budget agencies and other public entities	-116	-121	-121	-121	-121	-121	-121	-121
Net claims on financial institutions	251	348	348	348	348	348	348	348
Net claims on private sector	23	23	23	23	23	23	23	23
Net claims on commercial banks	-2,009	-1,834	-2,717	-2,799	-3,305	-3,435	-3,321	-3,415
Of which: FX deposits of commercial banks	840	762	768	775	791	808	841	878
CDs	-600	-500	-500	-1,000	-500	-500	-400	-200
Other items, net (asset: +)	-160	-323	-323	-323	-323	-323	-323	-123
Jordanian dinar reserve money	7,272	8,100	8,611	9,244	9,827	10,505	11,224	12,082
Currency	4,802	5,039	5,303	5,535	5,789	6,055	6,362	6,730
Commercial bank reserves	2,469	3,061	3,308	3,709	4,039	4,450	4,862	5,352
Of which: required reserves	1,580	1,709	1,842	1,992	2,136	2,290	2,451	2,644
(Flows, in millions of Jordanian dinars)								
Net foreign assets	-1,072	874	1,331	1,093	467	683	492	677
Foreign assets	-671	628	1,278	1,201	633	34	549	596
Foreign liabilities	401	-246	-53	108	166	-649	57	-81
Net domestic assets	645	-45	-820	-460	117	-6	227	181
Net claims on central budgetary government	-75	-249	62	122	123	124	13	-125
Net claims on commercial banks	396	175	-882	-82	-506	-130	114	-94
Other items, net (asset: +)	164	-163	0	0	0	0	0	200
Jordanian dinar reserve money	-427	828	511	633	583	678	719	858
Currency	-34	237	264	232	254	266	306	369
Commercial banks' reserves	-393	592	247	401	329	412	412	489
Memorandum items:								
Gross international reserves	14,506	15,391	17,194	18,888	19,781	19,829	20,603	21,445
Gross usable international reserves ($ millions)	12,441	13,500	15,294	16,978	17,847	17,872	18,599	19,388
As a ratio to JD broad money (in percent)	32.4	32.7	34.5	35.6	35.0	32.8	31.9	30.9
As a ratio of JD reserve money (in percent)	121.3	118.2	125.9	130.2	128.8	120.6	117.5	113.8
Net international reserves (millions of JD)	8,104	9,044	10,254	11,258	11,688	11,528	11,987	12,627
Net international reserves (millions of U.S. dollars)	11,430	12,756	14,462	15,879	16,485	16,259	16,907	17,809
Money multiplier (for JD liquidity)	3.7	3.6	3.7	3.7	3.7	3.7	3.7	3.7

Sources: Jordanian authorities; and IMF staff estimates and projections.

1/ Includes SBA support onlent to the government by the CBJ.

Table 5. Jordan: Proposed Access and Phasing Under the Extended Fund Facility (EFF) 1/

Review	Availability Date	Action	Purchase	
			SDR Million	Percent of Quota
	March 25, 2020	Board approval of EFF	102.930	30.0
First Review	September 30, 2020	Observance of end-June 2020 performance criteria, completion of first review	102.930	30.0
Second Review	March 30, 2021	Observance of end-December 2020 performance criteria, completion of second review	102.930	30.0
Third Review	September 30, 2021	Observance of end-June 2021 performance criteria, completion of third review	102.930	30.0
Fourth Review	March 30, 2022	Observance of end-December 2021 performance criteria, completion of forth review	102.930	30.0
Fifth Review	September 30, 2022	Observance of end-June 2022 performance criteria, completion of fifth review	102.930	30.0
Sixth Review	March 30, 2023	Observance of end-December 2022 performance criteria, completion of sixth review	102.930	30.0
Seventh Review	September 30, 2023	Observance of end-June 2023 performance criteria, completion of seventh review	102.930	30.0
Eighth Review	March 15, 2024	Observance of end-December 2023 performance criteria, completion of eight review	102.930	30.0
Total			**926.370**	**270**

Source: IMF staff estimates.

1/ Jordan's quota is SDR 343.1 million.

Table 6. Jordan: Indicators of Fund Credit, 2018–34

(In millions of SDR, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
		Proj.															
Existing and prospective Fund arrangements																	
		(SDR million)															
Disbursements	0.0	120.1	205.9	205.9	205.9	205.9	102.9	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit 1/	543.4	365.1	428.9	621.9	810.6	989.3	1,046.4	966.4	852.0	716.2	550.3	385.9	240.1	128.6	51.4	8.5	0
Obligations to the Fund 2/	367.1	310.3	150.5	23.6	32.3	49.2	73.6	106.6	138.4	156.1	179.4	174.1	152.7	116.1	80.1	44.6	9.8
Principal (repayments/repurchases)	348.1	298.4	142.1	12.9	17.2	27.2	45.8	80.1	114.4	135.8	165.8	164.4	145.8	111.5	77.2	42.9	8.6
Charges and interest 3/	19.0	11.9	8.5	10.8	15.2	22.0	27.8	26.6	24.0	20.2	13.6	9.7	6.9	4.6	2.9	1.7	1.2
		(Percent)															
Stock of existing and prospective Fund credit 1/ 4/																	
In percent of quota	158.4	106.4	125.0	181.3	236.3	288.3	305.0	281.7	248.3	208.7	160.4	112.5	70.0	37.5	15.0	2.5	0.0
In percent of GDP	1.8	1.1	1.3	1.8	2.2	2.6	2.6	2.2	1.9	1.5	1.1	0.7	0.4	0.2	0.1	0.0	0.0
In percent of exports of goods and services	5.8	3.5	4.0	5.4	6.7	7.7	7.7	6.7	5.7	4.5	3.3	2.2	1.3	0.7	0.3	0.0	0.0
In percent of gross usable reserves	6.1	3.7	3.9	5.0	6.3	7.6	7.8	6.9	5.8	4.7	3.5	2.3	1.4	0.7	0.3	0.0	0.0
In percent of government revenue	6.8	4.6	4.8	6.8	8.5	10.1	10.1	8.9	7.5	6.0	4.4	2.9	1.7	0.9	0.3	0.1	0.0
In percent of total external debt	2.6	1.7	1.8	2.5	3.2	3.8	3.9	3.6	3.1	2.6	1.9	1.4	0.9	0.5	0.2	0.0	0.0
Obligations to the Fund (repurchases and charges) 4/																	
In percent of quota	107.0	90.4	43.9	6.9	9.4	14.3	21.4	31.1	40.3	45.5	52.3	50.7	44.5	33.8	23.3	13.0	2.8
In percent of GDP	1.2	1.0	0.5	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.3	0.3	0.2	0.1	0.1	0.0
In percent of exports of goods and services	3.4	2.6	1.2	0.2	0.2	0.3	0.5	0.6	0.8	0.8	0.9	0.9	0.7	0.5	0.3	0.2	0.0
In percent of gross usable reserves	4.2	3.2	1.4	0.2	0.2	0.4	0.5	0.8	0.9	1.0	1.1	1.0	0.9	0.6	0.4	0.2	0.0
In percent of government revenue	4.7	4.0	1.7	0.3	0.3	0.5	0.7	1.0	1.2	1.3	1.4	1.3	1.1	0.8	0.5	0.3	0.1
In percent of total external debt service	16.8	10.2	4.9	1.1	1.1	1.6	3.0	3.8	5.6	5.6	9.2	6.0	4.3	3.9	2.2	1.5	0.3
Memorandum items																	
Quota (SDR million)	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1	343.1
Gross domestic product, baseline (USD million)	42,291	43,805	45,575	47,789	50,257	53,008	56,017	59,312	62,801	66,496	70,407	74,549	78,934	83,577	88,494	93,700	99,211
Exports of goods and services (USD million)	13,013	14,161	14,926	15,762	16,692	17,683	18,703	19,782	20,749	21,768	22,821	23,933	25,106	26,344	27,651	29,031	30,487
Gross usable reserves (USD million)	12,441	13,500	15,294	16,978	17,847	17,872	18,599	19,388	20,210	21,068	21,961	22,892	23,863	24,876	25,931	27,030	28,177
Government revenue (USD million)	11,057	10,827	12,292	12,564	13,133	13,463	14,265	14,967	15,702	16,474	17,284	18,134	19,025	19,960	20,942	21,971	23,051
External debt service (USD million)	3,095	4,234	4,226	2,874	4,009	4,325	3,425	4,030	3,539	3,950	2,784	4,151	5,097	4,198	5,220	4,248	4,320
Total external debt (USD million)	29,195	30,063	32,777	34,699	35,862	36,966	37,620	37,924	39,172	40,077	40,734	40,554	39,481	39,328	38,195	38,077	37,962

Sources: IMF Finance Department; and IMF staff estimates and projections.

1/ End of period.

2/ Repayment schedule based on scheduled debt service obligations.

3/ Using GRA rate of charge of 1.743 percent (as of January 2, 2020).

4/ Using the end-2020:Q1 forecast of the SDR/USD rate in 2020-2034 forecasts.

Annex I. Debt Sustainability Analyses

Jordan's public debt is assessed as sustainable. This assessment rests on the fiscal adjustment and growth-enhancing reforms envisaged under the new Fund-supported program, as well as on the related ability to mobilize committed donor and market financing. Public debt, defined in this DSA as the consolidated gross direct and guaranteed debt of the central government and the state-owned Social Security Corporation, is now projected to peak at 80 percent of GDP in 2020, and to decline to 74 percent of GDP by 2025 (above the 70 percent high-risk MAC DSA benchmark). Adverse shocks to the recovery, financing conditions, and/or policy slippages could test this baseline trajectory. Risks from significant Eurobond and domestic FX bond rollovers during 2020–23 remain high, but the concessional financing committed under the Jordan Compact and recently in the London Initiative, and overall gross financing needs below the high-risk benchmark helps mitigate such risks. Nonetheless, given the elevated level of public debt, steadfast implementation of program commitments and timely disbursements of external financing are necessary to ensure debt sustainability. The external DSA points to moderate but increasing external indebtedness (external debt is projected to reach 73 percent of GDP by 2021), mainly reflecting continued market access and concessional borrowing under the Jordan Compact and recent commitments under the London Initiative. External debt remains vulnerable to current account and real exchange rate shocks.

1. This annex analyzes the sustainability of Jordan's public and external debt. Section A provides a summary of the macroeconomic framework. Section B discusses the realism of the macro assumptions. Section C considers public debt sustainability, examining the debt trajectory under the baseline and under a variety of stress scenarios. Section D considers external debt sustainability. The analysis shows that the assumptions under the new program would help place Jordan's debt on a sustainable trajectory, but there are considerable risks that its downward path may be interrupted by shocks and tested by the materialization of contingent liabilities.

A. Assumptions

2. Macro. GDP growth is projected to increase to 2.1 percent in 2020, supported by upfront steps to reduce businesses' energy costs and recent government actions to stimulate domestic demand, and gradually reach 3.3 percent over the medium term. Inflation (measured by the GDP deflator) is expected to gradually converge to 2½ percent over the medium term. The current account deficit (excluding grants) is projected to narrow from 7 percent of GDP in 2020 to 5 percent over the medium term. The gradual recovery of FDI inflows, continued market access, Fund financing, and concessional financing under the Jordan Compact and the 2019 London Initiative would help finance the current account deficit and maintain international reserves at an adequate level.

3. Fiscal. Gradual fiscal consolidation is expected to reduce the combined public deficit[1] from 5.1 percent of GDP in 2019 to 0.8 percent by 2025, including NEPCO's additional costs stemming

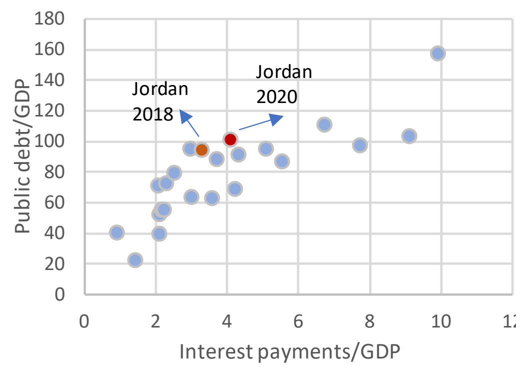
[1] The combined public deficit is the sum of (i) the primary deficit of the central government, excluding grants; (ii) the net loss of NEPCO; and (iii) the overall deficit of WAJ and the water distribution companies.

from an oil-shale PPA project. At the central government level, a cumulative fiscal effort of about 4 percent of GDP would be needed during 2020–24. Fiscal sustainability is also critically supported by the full implementation of the energy-reform roadmap.

4. Budget grants. Budget grants over the past five years reached $5.8 billion, partly buoyed by an agreement with GCC members for $3¼ billion. As donor's preferences have shifted from providing budget grants to concessional loans, committed budget grants over the 2020–24 period are expected to decline to about $4½ billion.

5. Sovereign yields. Jordan's EMBIG spread had exhibited minor fluctuations around an average of about 390 basis points since end-2015 (with a standard deviation of 38 bps). Jordan's interest burden (central government level) remains relatively low among countries rated B+ or below and with similar debt-to-GDP ratios, but it has increased from 3 percent of GDP on average during 2016–18 to about 4 percent in 2019. Gradual fiscal consolidation and sustained concessional financing are both critical to stabilize the interest burden and prevent it from eroding the fiscal effort under the program.

Debt and interest burden (percent of GDP)



1/ Countries rated B+ or below.

6. Maturity, rollover risk, and market access. Jordan has notably lengthened its domestic debt maturity profile in recent years. Excluding treasury bills, the average maturity has almost doubled to six years since 2018, reducing rollover needs over the medium term. Jordan's external public debt profile is on the longer end, with maturity at issuance typically more than five years. This is assumed to continue over the projection period, through sustained market access and concessional financing from the World Bank, other multilaterals, and official bilateral creditors. U.S. guaranteed Eurobonds maturing in 2020 and 2022 and domestic FX bonds maturing during 2021–23 are assumed to be rolled-over on market terms prevailing at the respective due dates (with expected issuance terms of 10-year maturity and 7 percent interest rate). Jordanian banks' favorable profitability, liquidity and provisioning indicators help mitigate rollover risks.

Jordan: Gross Financing Needs and Sources, 2020-21

	2020		2021	
	US$ Million	Percent of GDP	US$ Million	Percent of GDP
Gross Financing Needs (A1+A2)	**6,256**	**13.7**	**6,340**	**13.3**
A1. Overall deficit (after grants)	**367**	**0.8**	**493**	**1.0**
Central government	1,378	3.0	1,637	3.4
NEPCO	222	0.5	307	0.6
WAJ and distribution companies	489	1.1	381	0.8
Social Security Corporation	-1,723	-3.8	-1,832	-3.8
A2. Debt amortization	**5,889**	**12.9**	**5,847**	**12.2**
Gross Financing Sources (B1+B2+B3)	**6,256**	**13.7**	**6,340**	**13.3**
B1. Issuance of domestic debt	**2,292**	**5.0**	**4,636**	**9.7**
Central government	1,501	3.3	3,775	7.9
Guaranteed debt	791	1.7	861	1.8
B2. Identified external financing	**3,964**	**8.7**	**1,704**	**3.6**
Bilateral	1,408	3.1	988	2.1
Multilateral	1,556	3.4	716	1.5
Eurobond issuance	1,000	2.2	0	0.0

Sources: Jordanian authorities and IMF staff estimates.

B. Realism of Projections

7. Growth and inflation. Growth forecast errors over the past years were heavily affected by the spillovers from the deterioration in regional conditions, particularly with the closure of the Iraq border in 2015 and the sharp slowdown in economic activity in the GCC. Growth projections have been revised markedly since then, with medium-term growth now projected to gradually converge to 3.3 percent by 2025 (compared to 4 percent by 2019 at the inception of the previous program). Primary deficit (including grants; central government level) deviations were heavily influenced by policy slippages during the previous Fund-supported program, and also partly influenced by lower-than-originally-expected budget grants. The track record of inflation projections does not show any systematic bias and has been broadly in line with the median forecast error across comparator countries over the recent past.

8. Fiscal adjustment. Although Jordan's three-year average level of the cyclically-adjusted central government primary balance (CAPB) is generally in line with the median of other comparator countries, the maximum three-year adjustment lies on the top quartile of the distribution of past fiscal adjustment in high-indebted countries. The latter reflects the need to resume a steady path of fiscal consolidation over 2020–22, with half of it underpinned by measures legislated under the 2020 budget.

C. Public Sector DSA

9. The coverage of public debt in this DSA includes: (i) central government direct debt; (ii) government-guaranteed debt of public entities (NEPCO, WAJ, and other public entities); and (iii) CBJ's liabilities to the IMF. Central government direct and guaranteed debt is consolidated with the SSC's holdings of government debt (about 20 percent of GDP).

Jordan: Consolidated Public and Publicly Guaranteed Debt

	2019 (Preliminary)			
	JD (Billion)	USD (Billion)	Percent of GDP	Percent of total
Public and publicly guaranteed debt	**24.7**	**34.8**	**79.4**	**100.0**
Domestic debt	**13.6**	**19.2**	**43.7**	**55.1**
Direct debt	10.7	15.1	34.5	43.5
Guaranteed debt	2.9	4.0	9.2	11.6
Held by commercial banks	12.1	17.1	38.9	49.1
Held by CBJ	0.3	0.4	0.9	1.1
Held by non-banks	1.2	1.7	3.9	4.9
Local currency	11.7	16.5	37.7	47.5
Foreign currency	1.9	2.6	6.0	7.6
External debt	**11.1**	**15.6**	**35.6**	**44.9**
External direct debt	**10.4**	**14.7**	**33.5**	**42.2**
Multilateral	3.2	4.6	10.4	13.1
of which: IMF	0.4	0.5	1.2	1.5
of which: World Bank	2.2	3.0	6.9	8.7
Bilateral	2.6	3.6	8.3	10.5
Guaranteed Eurobonds	2.2	3.0	6.9	8.7
Non-guaranteed Eurobonds	2.4	3.4	7.9	9.9
External guaranteed debt	**0.7**	**0.9**	**2.1**	**2.7**
Multilateral	0.6	0.8	1.9	2.4
Bilateral	0.1	0.1	0.2	0.2
Commercial	0.0	0.0	0.0	0.0
Memorandum items:				
SSC' holdings of government debt	6.1	8.6	19.7	

Source: Ministry of Finance.

10. Baseline projections indicate that the debt ratio would fall to 74 percent of GDP by 2025. Public debt increased in 2019 to 79 percent of GDP, on the back of sizable fiscal deviations and the securitization of domestic arrears. Public debt is projected to increase to 80 percent of GDP in 2020. Thereafter, sustained fiscal effort (assumed at a cumulative 4 percent of GDP during 2020–24) and growth recovery would gradually reduce public debt to 74 percent of GDP by 2025.

11. The heat map and fan charts indicate that Jordan faces significant risks to debt sustainability. Although debt profile indicators and gross financing needs point to moderate risks overall, the heat map shows that the debt level breaches the high-risk benchmark under the baseline throughout the projection period. Risks are particularly acute in the near term, given the elevated debt level and still relatively high GFNs. However, GFNs are covered by committed concessional financing and rollovers from domestic investors, and are projected to decline over the program period, in line with the continued shift to longer-term domestic issuance and official financing. The fan charts illustrate the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and asymmetric distribution of risks. In the former, upside and downside risks to the main macro variables are treated as equally likely, while in the latter shocks to the primary balance are restricted to the negative side to reflect the limits of fiscal effort over what is assumed under the baseline. The asymmetric fan chart therefore shows heightened risks to debt sustainability if the envisaged fiscal consolidation falls short of expectations.

12. Stress tests also point to a number of considerable risks to the debt outlook, with the balance of risk tilted to the downside. The projected decline in public debt remains fragile, vulnerable to lower growth, policy slippages, real exchange rate depreciation, and higher borrowing costs. Under a growth shock, entailing a cumulative growth decline of 1½ percentage points in 2021–22, which in turn leads to a cumulative primary balance deterioration of about 1 percent of GDP, the debt-to-GDP ratio would reach 83 percent of GDP in 2021. A real exchange rate shock calibrated to close the upper-bound of the estimated overvaluation (6 percent) would also push the debt ratio to 83 percent of GDP by 2021. Higher borrowing costs (an increase of 200 bps) would leave the debt-to-GDP ratio at 79 percent of GDP by 2025. The combined macro-fiscal shock, an aggregation of the shocks to real growth, interest rates, primary balance and exchange rate, would send public debt to about 90 percent of GDP over the medium term.

D. External Sector DSA

13. The coverage of external debt in this DSA includes: (i) public and publicly guaranteed external debt; and (ii) external liabilities of the banking sector and private corporations. Due to data limitations, the coverage of private external debt (especially the non-banking sector) is likely underestimated. The external debt is defined according to the residency criterion.

14. Jordan's public external debt remains moderate but is projected to grow slightly over the medium term. Public external debt is expected to rise from 36 percent of GDP in 2019 to about 38-40 percent of GDP by 2024. The composition of public external debt would remain favorable, due to the sizable share of concessional borrowing, including pledges made as part of the Jordan Compact and the 2019 London Initiative.

15. In turn, private external debt is expected to remain moderate at about 30 percent of GDP. As of end-2018, 77 percent of total private external debt was owed by banks (mostly in the form of non-resident deposits), with the remainder owed by non-financial corporations. In broad terms, the projections are predicated on banks maintaining their exposure to non-residents and on the non-bank corporate sector meeting part of its financing needs with debt-creating flows. Over the medium term, the share of corporates' external debt is expected to gradually increase to about a third of total private external debt, following the trend observed in the past years. Given the currently available information on private external debt—particularly its moderate size and the healthy balance sheets of local banks—contingent liability risks to the public sector are expected to be contained.[2]

16. External financing requirements would remain sizable over the program period and gradually decline thereafter. The still elevated financing requirements reflect the persistence of current account deficits in the near-term, and amortizations of U.S. guaranteed Eurobonds coming due during 2020–22, which are assumed to be rolled-over on market terms prevailing at that time.

17. External debt remains vulnerable to shocks. Standardized stress-test scenarios suggest that a large and permanent real depreciation shock would bring the ratio of external debt to GDP well above the baseline projections, whereas its sensitivity to current account and combined shocks is relatively low and interest rate and real growth shocks would only have a marginal impact on the external debt burden. The moderate risks to external debt sustainability are predicated on the assumption that FDI inflows will gradually pick up on the back of structural adjustment, that international market access will continue to be sustained, and that the accumulation of additional external buffers under the program will help to cushion against external shocks and anchor private sector expectations.

[2] Risks stemming from the non-banking sector may be also understated due to limited coverage.

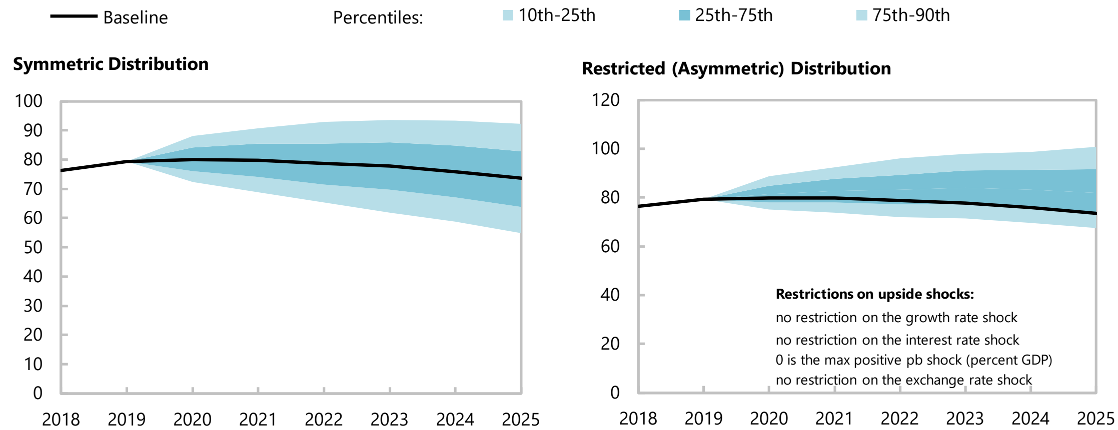
Jordan: Public DSA—Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

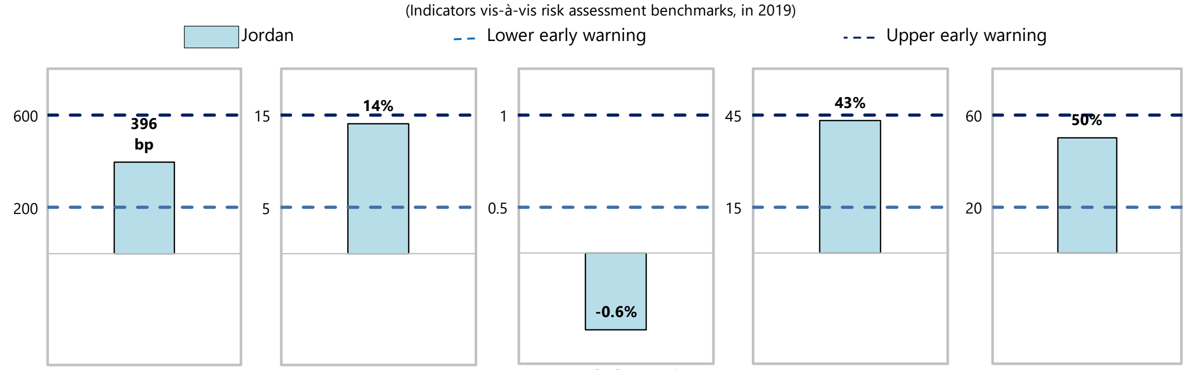
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



EMBIG (in basis points) 4/

External Financing Requirement (in percent of GDP) 5/

Annual Change in Short-Term Public Debt (in percent of total)

Public Debt Held by Non-Residents (in percent of total)

Public Debt in Foreign Currency (in percent of total)

Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

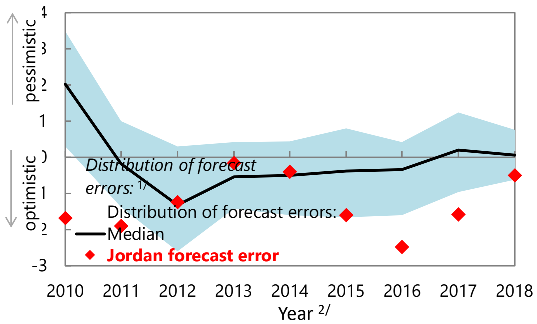
4/ EMBIG, an average over the last 3 months, 22-Nov-19 through 20-Feb-20.

5/ External financing requirement is defined as the sum of current account deficit (excluding public grants), amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

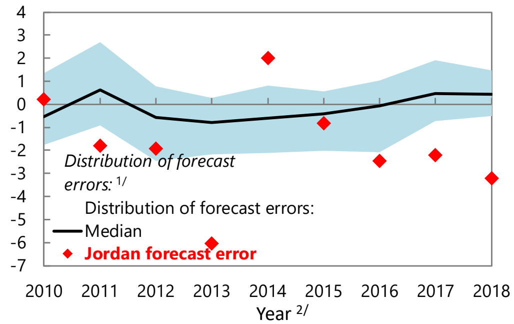
Jordan: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus all countries

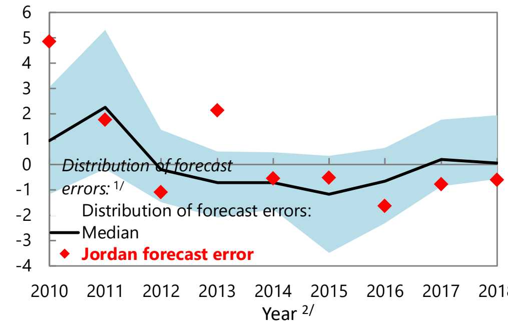
Real GDP Growth
(in percent, actual-projection)
Jordan median forecast error, 2010-2018: **-1.58**
Has a percentile rank of: **6%**



Primary Balance
(in percent of GDP, actual-projection)
Jordan median forecast error, 2010-2018: **-1.93**
Has a percentile rank of: **11%**

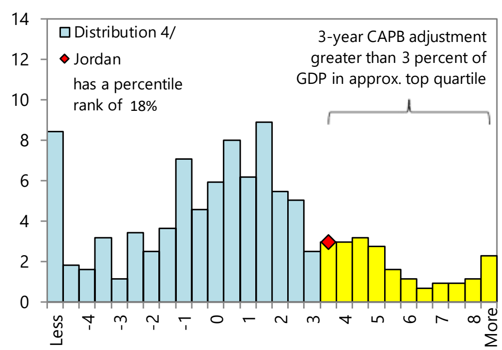


Inflation (Deflator)
(in percent, actual-projection)
Jordan median forecast error, 2010-2018: **-0.54**
Has a percentile rank of: **32%**

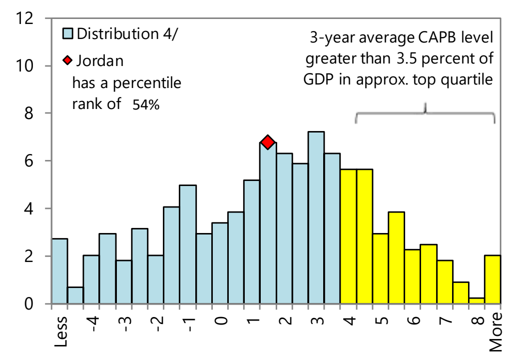


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

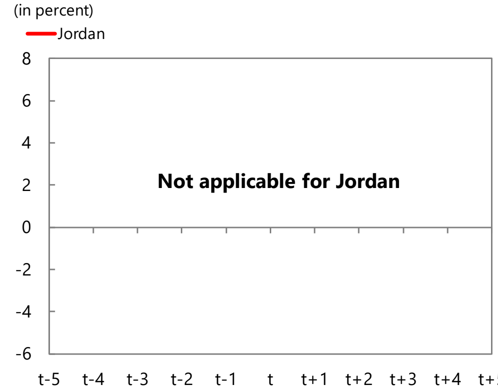


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Jordan, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Jordan: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

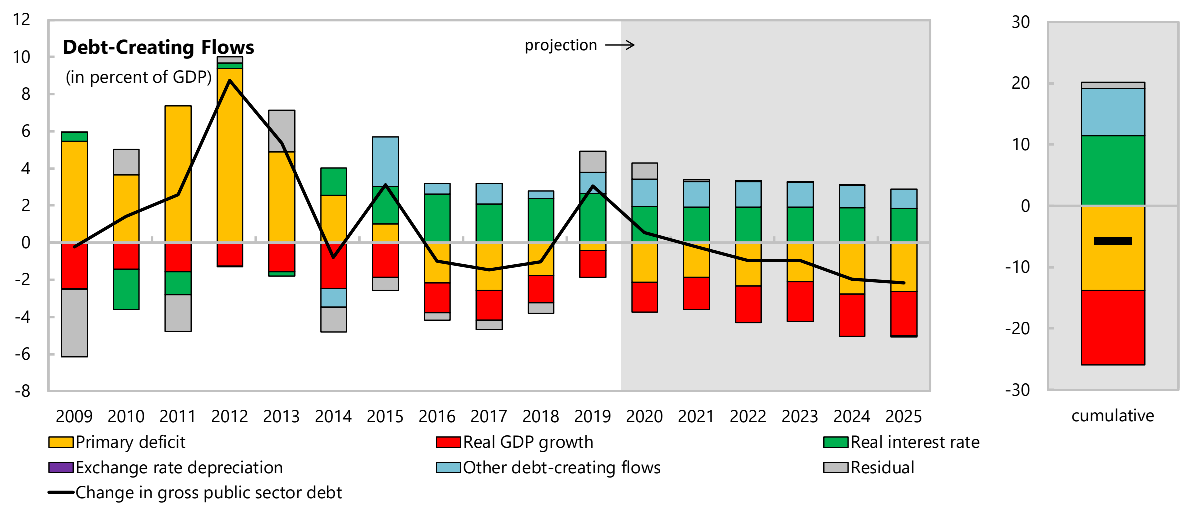
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections						As of February 20, 2020		
	2009-2017 2/	2018	2019	2020	2021	2022	2023	2024	2025			
Nominal gross public debt	71.8	76.3	79.4	79.9	79.7	78.7	77.8	75.8	73.6	Sovereign Spreads		
Of which: guarantees	9.8	11.2	10.1	9.5	9.4	9.1	9.0	8.2	7.7	EMBIG (bp) 3/		380
Public gross financing needs	26.5	17.9	14.4	13.7	13.3	13.4	12.6	10.7	11.5	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	2.7	1.9	2.0	2.1	2.3	2.6	2.9	3.1	3.3	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.2	1.8	1.6	1.9	2.5	2.5	2.5	2.5	2.5	Moody's	B1	B1
Nominal GDP growth (in percent)	7.0	3.7	3.6	4.0	4.9	5.2	5.5	5.7	5.9	S&Ps	B+	B+
Effective interest rate (in percent) 4/	4.9	4.2	4.5	4.4	4.5	4.5	4.6	4.5	4.6	Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance 10/
Change in gross public sector debt	2.0	-1.0	3.1	0.6	-0.2	-1.0	-1.0	-2.0	-2.2	-5.7	
Identified debt-creating flows	2.5	-0.4	1.9	-0.3	-0.3	-1.0	-1.0	-2.0	-2.1	-6.7	
Primary deficit	3.3	-1.8	-0.4	-2.1	-1.9	-2.3	-2.1	-2.8	-2.6	-13.8	0.5
Revenues and grants	35.7	38.6	36.9	39.4	38.7	38.6	37.7	37.7	37.2	229.3	
Primary expenditures	39.0	36.8	36.5	37.2	36.9	36.2	35.6	34.9	34.6	215.5	
Automatic debt dynamics 5/	-1.2	0.9	1.2	0.3	0.2	-0.1	-0.2	-0.4	-0.5	-0.7	
Interest rate/growth differential 6/	-1.2	0.9	1.2	0.3	0.2	-0.1	-0.2	-0.4	-0.5	-0.7	
Of which: real interest rate	0.6	2.4	2.7	1.9	1.9	1.9	1.9	1.9	1.9	11.4	
Of which: real GDP growth	-1.8	-1.4	-1.4	-1.6	-1.8	-2.0	-2.2	-2.3	-2.4	-12.1	
Exchange rate depreciation 7/	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.4	0.4	1.1	1.5	1.4	1.4	1.3	1.2	1.0	7.8	
Privatization Receipts (negative)	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other flows 8/	0.5	0.4	1.4	1.5	1.4	1.4	1.3	1.2	1.0	7.8	
Residual, including asset changes 9/	-0.5	-0.6	1.1	0.8	0.1	0.1	0.0	0.0	-0.1	1.0	



Source: IMF staff.

1/ Public sector is defined as the consolidated central government, NEPCO, WAJ, water distribution companies, and Social Security Corporation and includes public guarantees, defined as guaranteed debt of NEPCO, WAJ, and other public entities.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes off-budget project loans, repurchases under the 2016 EFF, and SSC's investments in non-government debt and equity.

9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

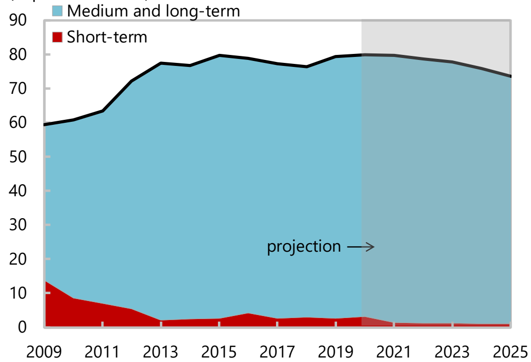
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Jordan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

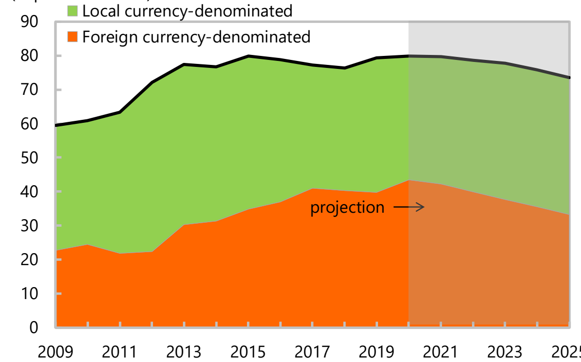
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

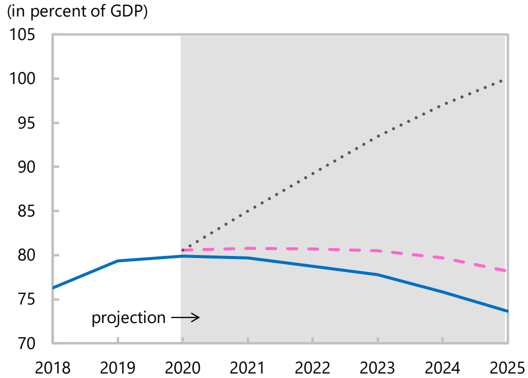


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

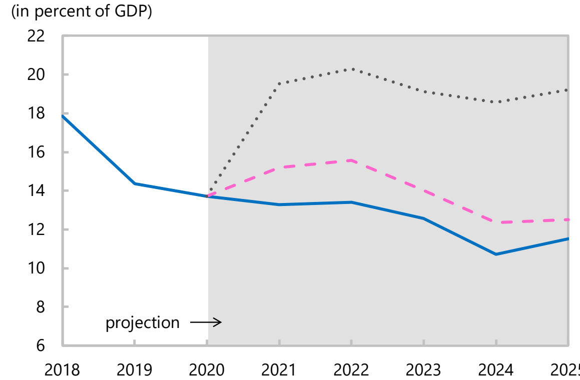
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

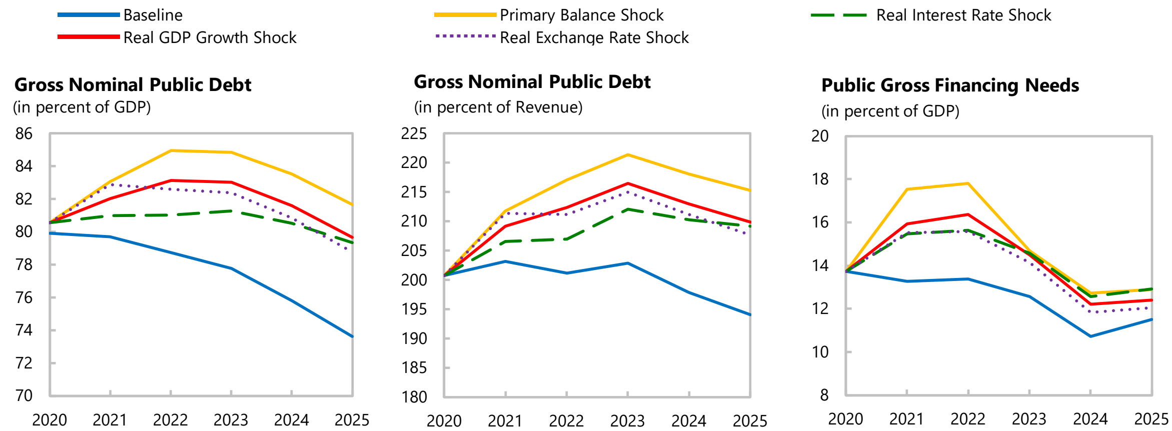
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	2.1	2.3	2.6	2.9	3.1	3.3
Inflation	1.9	2.5	2.5	2.5	2.5	2.5
Primary Balance	2.1	1.9	2.3	2.1	2.8	2.6
Effective interest rate	4.4	4.5	4.5	4.6	4.5	4.6
Constant Primary Balance Scenario						
Real GDP growth	2.1	2.3	2.6	2.9	3.1	3.3
Inflation	1.9	2.5	2.5	2.5	2.5	2.5
Primary Balance	2.1	2.1	2.1	2.1	2.1	2.1
Effective interest rate	4.4	5.2	5.3	5.5	5.5	5.5

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	2.1	2.4	2.4	2.4	2.4	2.4
Inflation	1.9	2.5	2.5	2.5	2.5	2.5
Primary Balance	2.1	-2.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	4.4	5.2	5.1	5.0	4.8	4.7

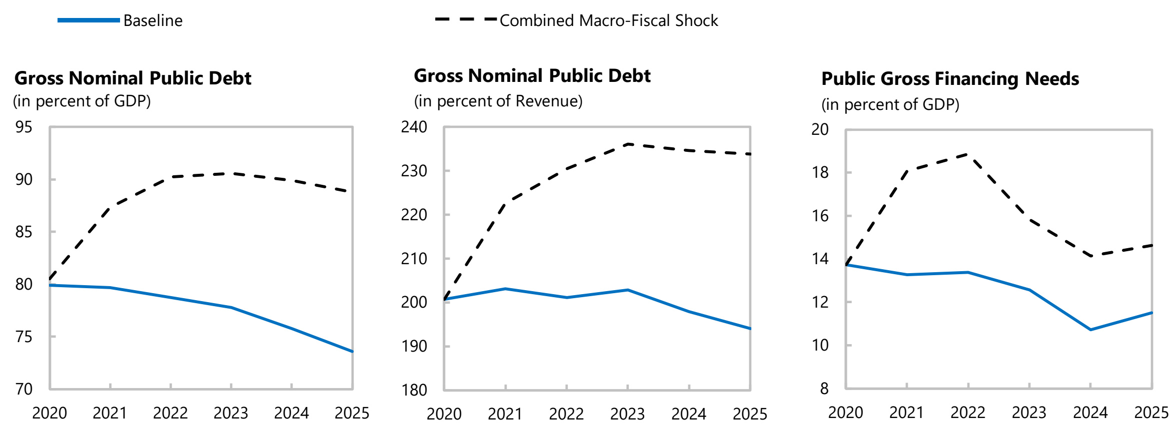
Source: IMF staff.

Jordan: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

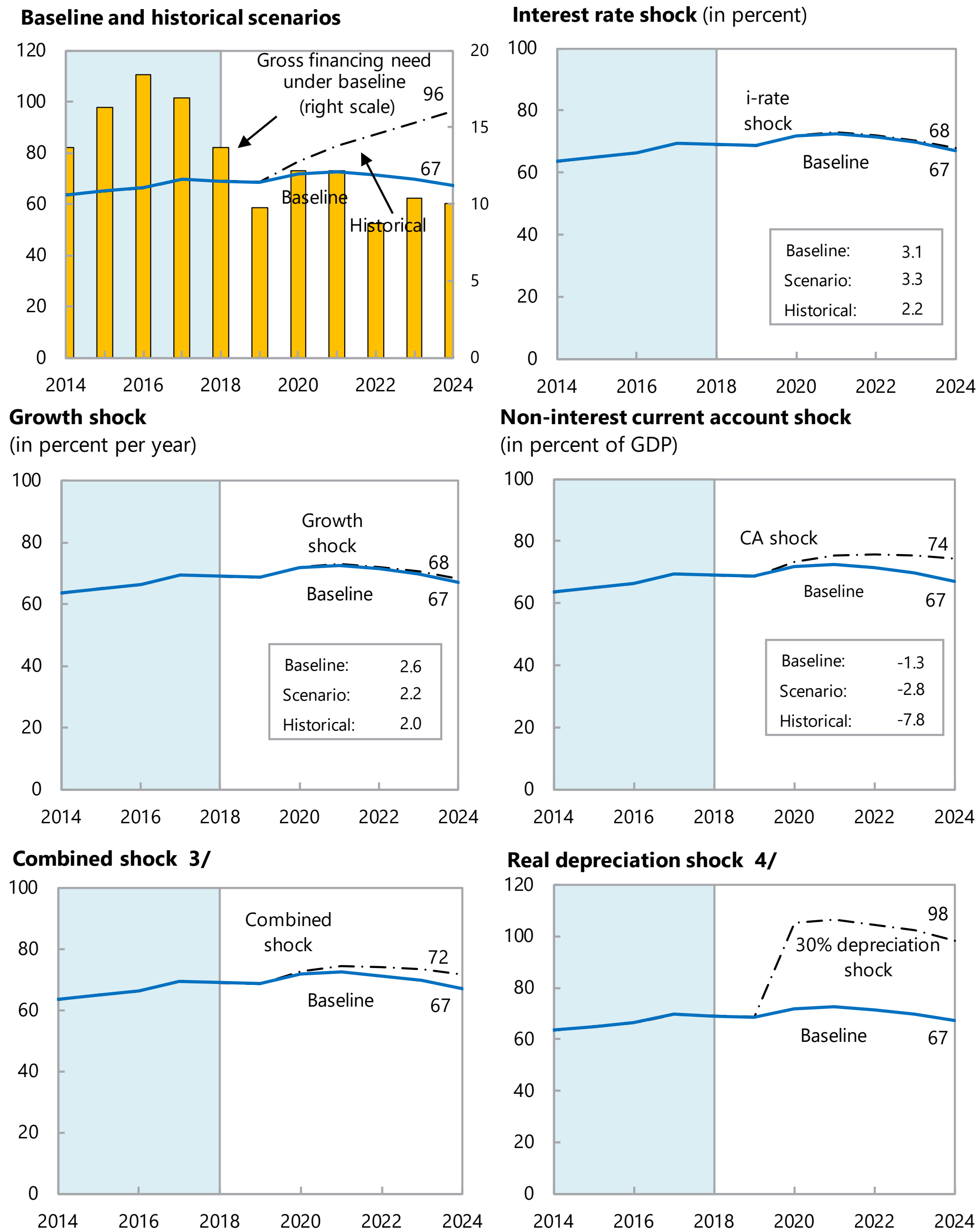
Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	2.1	2.3	2.6	2.9	3.1	3.3
Inflation	1.9	2.5	2.5	2.5	2.5	2.5
Primary balance	2.1	-0.2	0.3	2.1	2.8	2.6
Effective interest rate	4.4	5.2	5.4	5.6	5.7	5.7
Real Interest Rate Shock						
Real GDP growth	2.1	2.3	2.6	2.9	3.1	3.3
Inflation	1.9	2.5	2.5	2.5	2.5	2.5
Primary balance	2.1	1.9	2.3	2.1	2.8	2.6
Effective interest rate	4.4	5.2	5.7	6.2	6.5	6.7
Combined Shock						
Real GDP growth	2.1	1.6	1.9	2.9	3.1	3.3
Inflation	1.9	2.3	2.3	2.5	2.5	2.5
Primary balance	2.1	-0.2	0.3	2.1	2.8	2.6
Effective interest rate	4.4	5.4	5.6	6.1	6.5	6.7

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	2.1	1.6	1.9	2.9	3.1	3.3
Inflation	1.9	2.3	2.3	2.5	2.5	2.5
Primary balance	2.1	1.6	1.7	2.1	2.8	2.6
Effective interest rate	4.4	5.2	5.3	5.5	5.5	5.6
Real Exchange Rate Shock						
Real GDP growth	2.1	2.3	2.6	2.9	3.1	3.3
Inflation	1.9	4.5	2.5	2.5	2.5	2.5
Primary balance	2.1	1.9	2.3	2.1	2.8	2.6
Effective interest rate	4.4	5.3	5.0	5.1	5.0	5.0

Source: IMF staff.

Figure 1. Jordan: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2020.

Table 1. Country: External Debt Sustainability Framework 2014-2024

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 7/
1 **Baseline: External debt**	63.6	65.1	66.3	69.6	69.0			**68.6**	**71.9**	**72.6**	**71.4**	**69.7**	**67.2**	**-5.2**
Of which: Public and Publicly Guaranteed External Debt	31.0	34.8	37.0	39.9	37.2			35.5	39.5	41.1	40.8	40.0	38.3	
2 Change in external debt	-0.4	1.5	1.2	3.3	-0.6			-0.4	3.3	0.7	-1.3	-1.6	-2.6	
3 Identified external debt-creating flows (4+8+9)	-2.9	1.8	3.8	3.4	2.2			-0.4	-0.4	-0.5	-1.0	-1.8	-2.5	
4 Current account deficit, excluding interest payments	6.3	8.3	8.8	9.4	5.1			1.0	1.3	1.5	1.4	1.4	1.0	
5 Deficit in balance of goods and services	26.2	22.8	21.2	21.5	18.5			13.7	13.1	11.6	10.7	9.8	9.0	
6 Exports	43.1	37.2	34.5	35.1	35.7			37.3	37.7	38.0	38.3	38.5	38.6	
7 Imports	69.3	60.1	55.7	56.6	54.3			51.0	50.8	49.6	49.1	48.3	47.6	
8 Net non-debt creating capital inflows (negative)	-5.8	-4.2	-4.0	-5.0	-2.3			-2.0	-2.2	-2.5	-2.8	-3.4	-3.6	
9 Automatic debt dynamics 2/	-3.4	-2.3	-1.1	-1.1	-0.6			0.6	0.5	0.5	0.4	0.2	0.0	
10 Contribution from nominal interest rate	0.9	0.9	1.1	1.3	1.9			1.9	1.9	2.1	2.2	2.1	2.1	
11 Contribution from real GDP growth	-2.0	-1.6	-1.3	-1.4	-1.3			-1.3	-1.4	-1.6	-1.8	-2.0	-2.0	
12 Contribution from price and exchange rate changes 3/	-2.3	-1.6	-0.8	-1.1	-1.2			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	2.5	-0.3	-2.5	-0.1	-2.8			0.0	3.7	1.2	-0.2	0.2	-0.1	
External debt-to-exports ratio (in percent)	147.6	174.7	192.0	198.1	193.2			184.1	190.7	191.0	186.2	181.0	173.9	
Gross external financing need (in billions of US dollars) 5/	4.9	6.2	7.2	6.9	5.8			4.3	5.6	5.8	4.4	5.5	5.6	
in percent of GDP	13.7	16.3	18.4	16.9	13.7			9.8	12.2	12.1	8.7	10.4	10.1	
Scenario with key variables at their historical averages 6/						3-Year Historical Average 8/	10-Year Standard Deviation	**68.6**	**76.7**	**82.6**	**87.1**	**92.0**	**96.5**	**-5.1**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.4	2.6	2.1	2.1	1.9	2.0	0.8	2.0	2.1	2.3	2.6	2.9	3.1	
GDP deflator in US dollars (change in percent)	3.7	2.5	1.3	1.7	1.8	1.6	2.2	1.6	1.9	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	1.6	1.5	1.7	2.1	2.8	2.2	0.5	2.9	2.9	3.1	3.2	3.2	3.2	
Growth of exports (US dollar terms, in percent)	9.1	-9.0	-4.1	5.6	5.5	2.3	8.7	8.1	5.3	5.7	6.0	6.0	5.9	
Growth of imports (US dollar terms, in percent)	3.4	-8.8	-4.2	5.5	-0.5	0.3	9.3	-2.7	3.7	2.4	3.9	3.9	4.0	
Current account balance, excluding interest payments	-6.3	-8.3	-8.8	-9.4	-5.1	-7.8	3.0	-1.0	-1.3	-1.5	-1.4	-1.4	-1.0	
Net non-debt creating capital inflows	5.8	4.2	4.0	5.0	2.3	3.7	1.9	2.0	2.2	2.5	2.8	3.4	3.6	

1/ Private and public and publicly guaranteed external debt on residency basis.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

4/ For projection, line includes the impact of price and exchange rate changes.

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

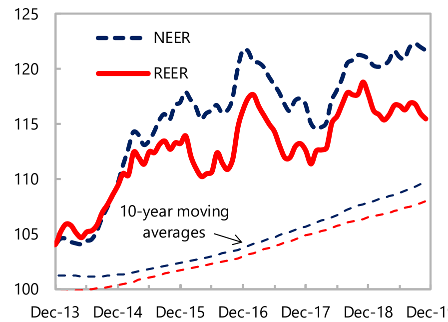
7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

8/ Historical averages are calculated over a three-year horizon due to a structural break in the performance of the economy.

Annex II. External Sector Assessment

This Annex provides an assessment of Jordan's external position, competitiveness, and reserve adequacy. Based on the Fund's external balance assessment framework, Jordan's external sector position in 2019 is assessed to be moderately weaker than warranted by medium-term fundamentals and desirable policy settings.[1] There is considerable uncertainty surrounding the estimates of the CA gap and implied REER misalignment, stemming from the broad range of model estimates and difficulty in accounting for the impact of the changing geopolitical climate on trade flows in the region. Jordan's non-price competitiveness remains weaker than in its top-performing regional peers, though improvement over the past year has brought Jordan closer to the frontier. International reserves are currently slightly below the lower bound of the recommended range for the Fund's reserve adequacy metric. Looking forward, Jordan's external position, competitiveness and reserve coverage are expected to improve under the economic policies supported by the new EFF arrangement. With the exchange rate peg serving as a valuable anchor for the economy, the planned fiscal consolidation and structural reforms remain key for reducing external imbalances.

Jordan: Effective Exchange Rates, 2014-19
(Index, 2010 = 100)

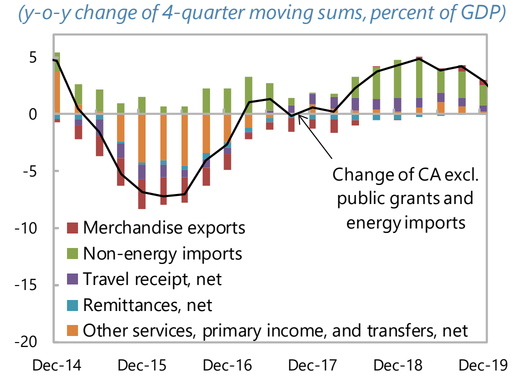


Source: IMF INS.
Note: Increase = appreciation of the JD.

Exchange Rate, Current Account, and NIIP

1. **Jordan's real effective exchange rate (REER) has appreciated since 2014, reflecting the global strength of the U.S. dollar, to which the JD is pegged**. The JD appreciated less in real than in nominal terms, reflecting the disinflationary effect of the concurrent economic slowdown. Since 2017, the REER appreciated by 1.6 percent, reflecting in part the one-off effect of tax revenue measures supported by the Fund EFF on domestic prices. In recent years, both the NEER and REER have remained within 10 percentage points from their 10-year moving averages, underscoring the contained nature of recent deviations from long-run trends.

Jordan: Contributions to Change of Current Account net of Public Grants and Energy Imports, 2015-19
(y-o-y change of 4-quarter moving sums, percent of GDP)



Source: Central Bank of Jordan and Fund staff estimates.

2. **The current account deficit excluding grants widened significantly in 2015–17, but has since notably improved.** The deterioration of Jordan's external position over 2015–17 was driven by the disruption of exports and tourism, caused by geopolitical tensions in the region, the decline in international support for Syrian refugees after the initial surge and remittances

[1] This assessment is based on the 2018 revised EBA-Lite methodology (see IMF Working Paper 19/65 "The External Balance Assessment Methodology: 2018 Update"). The EBA-Lite framework relies on a current account regression model, a real effective exchange rate regression model, and an external sustainability approach.

from the Gulf, and the interruption of cheaper gas imports from Egypt. The narrowing of the current account deficit excluding grants in 2018–2019:Q3 was on account of the strong recovery of tourism, the re-opening of the borders with Iraq and Syria and a reversal in the decline in export market share in the GCC region, the resumption of gas imports from Egypt, and the contraction of non-energy imports, linked to the sharp decline in import-intensive FDI, the weak growth of disposable incomes, and lower import prices in 2019. These factors, combined with the decline in the price of energy imports and a pick-up in external grants, are behind the narrowing of the overall current account deficit to 2.7 percent of GDP at end-September 2019 (expressed as a ratio of 4-quarter moving sums). As a result, the overall current account deficit is projected to reach 2.9 percent of GDP for the whole of 2019, compared to its average value of 9 percent over 2014–17.

3. The current account deficit excluding grants is projected to gradually decline to around 5 percent of GDP over the medium term, though the outlook is subject to heightened uncertainty. The main assumptions underpinning the medium-term forecasts are: (1) Stable geopolitical climate that would facilitate the gradual recapture of market share in traditional export markets (Iraq and Syria) and promote continued strong growth of tourism; (2) Continued positive momentum for exports from the US FTA and the relaxation of EU rules-of-origin; and (3) Narrowing of the public saving-investment gap, underpinned by the fiscal consolidation under the new EFF arrangement, alongside a decompression of the private saving-investment gap, as the expected recovery in consumption and investment upswing underpin the growth acceleration in the medium term. The headline current account deficit is projected to converge to the upper bound of the range consistent with fundamentals and desirable policy settings by the end of the forecast period (see below). The medium-term outlook is, however, subject to heightened uncertainty, as the slow pace of effective reopening of the borders with Iraq and Syria, which also serve as transit routes to other export destinations, and the associated sluggish recapture of export market share in traditional export markets could prove to be persistent, hampering the performance of the export sector.

4. Staff analysis suggests that Jordan's external sector position is moderately weaker than fundamentals and desirable policy settings, though the estimates of CA and REER misalignments are subject to considerable uncertainty. The empirical models, used in the external balance assessment, return a broad range of estimates:

- The current account (CA) regression model suggests that Jordan's current account balance is 2.7 percentage points of GDP weaker than the estimated norm (-1.4 percent of GDP), implying an overvaluation of the real effective exchange rate of around 8 percent. In the case of Jordan, the model-based CA norm estimate can be viewed as conservative, as the regression specification, which is optimized for a wide range of countries, does not fully incorporate the impact on the current account of the influx of

- Syrian refugees and associated aid flows, which have simultaneously widened the current account deficit and helped finance it in part.[2]

- The external sustainability approach indicates that Jordan should reduce its current account deficit by 3.9 percentage points of GDP to stabilize the NIIP-to-GDP ratio at its 2018 level of minus 107 percent of GDP, implying an overvaluation of the real effective exchange rate of around 12 percent. In the case of Jordan, the model-based CA norm estimate can be viewed as overly conservative given the country's sizeable catching up potential, the realization of which would depend in part on scaling up imported capital goods.

- The real effective exchange rate (REER) regression model, on the other hand, suggests undervaluation of the JD in the order of 7 percent. However, the factor with the largest positive contribution to the fitted REER (in natural log) is the old-age dependency ratio, which was added in the 2018 revision of the EBA-Lite but enters the regression specification with a sign opposite to theoretical priors.[3] Hence, the results from this model are discounted in the final assessment.

Jordan: External Sector Assessment, 2019
(Percent of GDP, unless otherwise noted)

Current account regression model	
CA norm 1/	-1.4
CA gap 2/	-2.7
Policy gaps	-1.8
Residual	-0.9
REER gap *(in percent)*	8.4
REER regression model	
REER gap *(in percent)*	-7.0
Policy gaps	-0.9
Natural disasters and conflicts adjustor	-0.9
Residual	-5.1
CA gap 3/	2.2
CA norm 2/ 4/	-6.3
External sustainability approach	
CA gap	-3.9
REER gap *(in percent)*	12.4

Source: IMF EBA-Lite models.
1/ Multilaterally consistent cyclically adjusted CA norm.
2/ In addition to the model-based cyclical adjustment, the 2019 forecast of the CA deficit is adjusted up to reflect the temporary nature of the drop in FDI and related imports in 2019.
3/ Implied CA gap using the elasticity of CA wrt REER from the CA model.
4/ For cyclically-adjusted CA balance.

Adjusting the CA gap estimates from the CA and REER regression models to better reflect Jordan's circumstances, staff assesses the size of the CA gap in 2019 to be in the range of [-1; -2] percent of GDP, implying REER overvaluation in the range of [3; 6] percent. In addition to model uncertainty, the wider range of estimates reflects the difficulty of fully accounting for the impact of geopolitical tensions on trade flows in the region. With the exchange rate peg serving as a valuable anchor for the economy, the planned fiscal consolidation and structural reforms under the new EFF arrangement are critical to reduce external imbalances and improve competitiveness.

[2] Foreign grants were dropped from the CA regression specification on methodological grounds in the 2018 revision of the EBA-Lite methodology. Under the old methodology, they've supported a wider, fundamentals-consistent current account deficit.

[3] Jordan's old-age dependency (OAD) ratio is lower than in trading partners, which would tend to support a more depreciated exchange rate, as *"[h]igher OAD ratios have been found to raise the demand for non-tradable old-age related services relative to tradable commodities, increasing the relative price of non-traded goods and thus leading to real exchange rate appreciation"* (IMF Working Paper 19/65 "The External Balance Assessment Methodology: 2018 Update", p. 21).

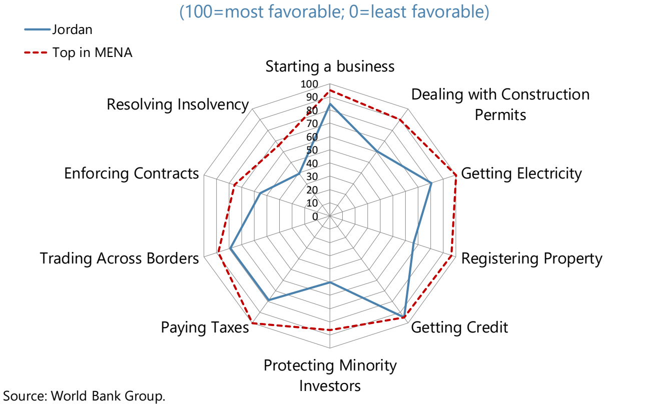
5. Jordan has a large negative net international investment position (NIIP) that is projected at minus 106 percent of GDP at end-2019. The post-2014 widening of the NIIP was driven by a decline in the ratio to GDP of reserve assets and an increase in the relative size of foreign liabilities of both the public and the private sectors. Since 2016, the stock of foreign direct investment has leveled off in the range of 82–84 percent of GDP. While Jordan's negative NIIP is large, vulnerabilities are mitigated by the expected build-up of the reserve buffer under the economic policies supported by the new EFF arrangement (see assessment of reserve adequacy below).

Non-price external competitiveness

6. Jordan's non-price competitiveness remains weaker than in top-performing regional peers, though improvement over the past year has brought Jordan closer to the frontier. Jordan was among the top three countries that improved their rankings the most in the 2020 World Bank Doing Business report. There has been a notable improvement in the access to credit, on account of the establishment and expansion of coverage of the Credit Bureau. The new secured transactions and insolvency laws improved the regulatory framework for securitized credit against movable property and allowed for easing of the burden of continued operations of debtors during insolvency proceedings. At the same time, Jordan continues to lag behind top-performing regional peers in a number of areas, including resolving insolvency, enforcing contracts, and protecting minority investors.

Jordan: 2020 Doing Business Indicators

(100=most favorable; 0=least favorable)



Source: World Bank Group.
Note: These indicators should be interpreted with caution, due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

Assessment of reserve adequacy

7. Jordan's international reserves are projected to remain adequate over the medium term. International reserves remained slightly below the lower bound of the recommended range for the Fund's reserve adequacy metric (RAM) in 2019. This was on account of the decision to not roll over maturing Eurobonds and delays in the implementation of the government reform agenda that resulted in some re-phasing of external financial support. The projected narrowing of the current account deficit over the medium term, combined with continued external financing support under the new EFF arrangement and the expected recovery in FDI are expected to raise the RAM toward the midpoint of its recommended range. International reserves are projected to remain comfortable compared to imports needs, at over 8 months of total imports of goods and services, providing an important buffer against shortfalls in import financing or adverse terms-of-trade shocks.

Authorities' views

Authorities were in broad agreement with the assessment, emphasizing that the slight overvaluation of the real effective exchange rate is expected to be self-correcting and occur alongside the improvement in non-price competitiveness and reserve coverage, under the economic policies supported by the proposed new EFF arrangement.

Annex III. Risk Assessment Matrix[1]

	Risks	Likelihood	Time Horizon	Impact	Policy Response
Global	**Rising protectionism and retreat from multilateralism**. In the near term, escalating and unpredictable protectionist actions and an inoperative WTO dispute resolution framework imperil the global trade system. Additional actions or the threat thereof, including investment restrictions, reduce growth directly and through adverse confidence effects. In the medium term, geopolitical competition, protracted tensions, and fraying consensus about the benefits of globalization leads to further fragmentation, with adverse effects on investment, productivity, growth, and stability.	High	Short to Medium Term	Low/ Medium	(1) Implement policies aimed at reducing the import-intensity of domestic demand, with the view of counteracting the negative impact on exports; (2) Maintain reforms momentum aimed at increasing the share of services in national exports; (3) Implement structural reforms to improve competitiveness.
Global	**Sharp rise in risk premia that exposes financial vulnerabilities.** An abrupt reassessment of market fundamentals triggers widespread risk-off events that expose financial vulnerabilities that have been building in a period of low interest rates and a search for yield. Risk asset prices fall sharply, leading to significant losses in major financial institutions. Higher risk premia generate debt service and refinancing difficulties; stress on leveraged firms, households, and vulnerable sovereigns; and capital outflows.	Medium	Short to Medium Term	Low/ Medium	(1) Maintain appropriate monetary policy to preserve adequate level of reserves; (2) Implement structural reforms to improve competitiveness; (3) Carry out planned economic reforms and fiscal consolidation to lower public debt and idiosyncratic country risk premium.
Global	**Intensified geopolitical tensions and security risks** (e.g., due to developments in the Middle East) causes economic and political disruption, disorderly migration, volatile commodity prices, and lower confidence.	High	Short Term	Medium/ High	(1) Appeal for higher grants from donors to ensure that the needs of refugees continue to be adequately met, including through supplementary government support; (2) Continue with planned economic reforms and fiscal consolidation to reassure foreign investors and improve domestic sentiment; (3) Maintain adequate reserve buffers; (4) Explore alternative trade routes and markets for Jordanian products; (5) Continue the diversification of Jordan's energy mix.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

	Risks	Likelihood	Time Horizon	Impact	Policy Response
	Weaker-than-expected global growth. Risks and idiosyncratic factors in the U.S., Europe, China, and other large emerging markets feed off each other in a synchronized and prolonged slowdown: • **U.S.:** Confidence wanes against a backdrop of a long expansion, stretched asset valuations, rising leverage, and reduced policy space, leading to weaker consumption and investment. • **Europe:** Weak foreign demand or an unanticipated Brexit outcome delays investment, reduces private consumption, and strains banks. With limited policy space, the region enters a prolonged period of anemic growth and low inflation. **China:** In the near term, Coronavirus and renewed escalation of trade tensions reduce growth directly and by damping confidence and exposing financial vulnerabilities. In the medium term, the reversal of globalization alongside insufficient progress on SOE reform and opening-up weigh on growth. Excessive policy easing—reversing progress in deleveraging and rebalancing—increases risks over time of a disruptive adjustment or a marked growth slowdown.	Low High High	Short to Medium Term Short to Medium Term Short to Medium Term	Medium	(1) Accelerate structural reforms to improve competitiveness
	Large swings in energy prices. Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks elevates price volatility, complicating economic management. As shocks materialize, they cause large and persistent price swings.	High	Short to Medium Term	High	(1) Continue the diversification of Jordan's energy mix.
	Coronavirus outbreak causes widespread and prolonged disruptions to economic activity and global spillovers through tourism, supply chains, containment costs, and confidence effects on financial markets and investment.	High	Short Term	High	(1) Prioritize the response to this health threat within the existing budget envelope and, if needed, widen the fiscal deficit to accommodate higher health expenditures; (2) Seek additional external grants to address the impact on the domestic and refugee populations; (3) In case of prolonged disruption of economic activity, consider targeted measures, such as direct transfers to households affected by furloughs and allowing the restructuring of loans and deferral of tax payments of the most affected companies.

	Risks	Likelihood	Time Horizon	Impact	Policy Response
Domestic	**Social discontent that causes economic disruption and policy missteps**	**Medium/ High**	**Short Term**	**High**	(1) Proactive outreach to main stakeholders explaining the trade-off between the short-term cost of reforms and their medium-term payoff; (2) Continue with gradual fiscal consolidation, with measures to protect the vulnerable.
	Donor fatigue	**High**	**Medium Term**	**High**	(1) Continue with planned economic reforms and fiscal consolidation; (2) Develop contingency plans for stronger domestic revenue mobilization; (3) Accelerate structural reforms. (4) Third-party appeal to donors.
	Shift in capital flows resulting in pressure on foreign exchange reserves	**Medium**	**Medium Term**	**Medium/ High**	(1) Maintain appropriate monetary policy to preserve adequate level of reserves; (2) Carry out planned economic reforms and fiscal consolidation to instill confidence.

Extended Arrangement

Attached hereto is a letter dated March 11, 2020, (the "Letter") from the Minister of Finance and the Governor of the Central Bank of Jordan, with its attached Memorandum of Economic and Financial Policies (the "MEFP") and Technical Memorandum of Understanding (the "TMU"), requesting an extended arrangement and setting forth:

(a) the objectives and policies that the authorities of Jordan intend to pursue for the period of this extended arrangement;

(b) the policies and measures that the authorities of Jordan intend to pursue during the first year of this extended arrangement; and

(c) understandings of Jordan with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Jordan will pursue for the subsequent years of this extended arrangement.

To support these objectives and policies the Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of four years from the date of the approval of this arrangement, Jordan will have the right to make purchases from the Fund in an amount equivalent to SDR 926.37 million subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 102.93 million until September 30, 2020, the equivalent of SDR 205.86 million until March 30, 2021, the equivalent of SDR 308.79 million until September 30, 2021, the equivalent of SDR 411.72 million until March 30, 2022, the equivalent of SDR 514.65 million until September 30, 2022, the equivalent of SDR 617.58 million until March 30, 2023, the equivalent of SDR 720.51 million until September 30, 2023, and the equivalent of SDR 823.44 million until March 15, 2024.

3. Jordan will not make purchases under this extended arrangement:

(a) Subject to paragraph 2 of Decision No. 14407-(09/105), as amended, during any period in which the data at the end of the preceding period indicate that:

(i) the ceiling on the primary fiscal deficit of the central government, excluding grants and net transfers to National Electric Power Company (NEPCO) and Water Authority of Jordan (WAJ);

(ii) the ceiling on the combined public deficit;

(iii) the floor on the net international reserves of the Central Bank of Jordan,

as set out in Table 1 of the MEFP and further specified in the TMU, is not observed, or

(b) after September 29, 2020, March 29, 2021, September 29, 2021, March 29, 2022, September 29, 2022, March 29, 2023, September 29, 2023 and March 14, 2024, until the respective program reviews contemplated in paragraph 34 of the MEFP are completed, or

(c) if, at any time during the period of the extended arrangement, Jordan:

(i) accumulates new external debt payments arrears by the central government or Central Bank of Jordan as specified in Table 1 of the MEFP and as further specified in the TMU, or

(ii) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or

(iii) introduces or modifies multiple currency practices, or

(iv) concludes bilateral payments agreements that are inconsistent with Article VIII, or

(v) imposes or intensifies import restrictions for balance of payments reasons.

When Jordan is prevented from purchasing under this extended arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and Jordan and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. Jordan will not make purchases under this extended arrangement during any period in which Jordan:

(i) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action; or

(ii) is failing to meet a repayment obligation to the PRG Trust established by Decision No. 8759-(87/176) (PRGT), amended, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRG Trust Instrument.

5. Jordan's right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Jordan. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Jordan and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of Jordan, the Fund agrees to provide SDRs at the time of the purchase.

7. Jordan shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

8. (a) Jordan shall repurchase the amount of its currency that results from a purchase under this extended arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Jordan's balance of payments and reserve position improves.

(b) Any reductions in Jordan's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the extended arrangement Jordan shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Jordan or of representatives of Jordan to the Fund. Jordan shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Jordan in achieving the objectives and policies set forth in the attached Letter, MEFP and TMU.

10. In accordance with paragraph 5 of the Letter, Jordan will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Jordan has outstanding purchases under this arrangement, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning Jordan's balance of payments policies.

Appendix I. Letter of Intent

Amman, March 11, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Ms. Georgieva:

Over the past years, we have made significant progress in implementing our economic program, supported by the IMF's extended arrangement under the Extended Fund Facility (EFF). Despite a challenging external environment and heightened socio-political pressures, we have been able to preserve macroeconomic stability and reduce fiscal and external imbalances. We also made progress in implementing our structural agenda, enacting a broad range of laws and regulations to improve the business environment, reduce labor costs, enhance the access to credit, and boost inclusive growth. Reflecting these efforts, Jordan has been featured as among the top 3 improvers in the World Bank's Doing Business 2020 Report.

But as we appreciate our strides in achieving fiscal and monetary stability, we are cognizant that job creation has slowed to a concerning amount and growth—whilst still resilient—has not been felt on a per-capita basis. Moreover, short-term policies, cuts in capital expenditure, and regional inertia have undermined investor confidence. In this regard, we now seek the IMF to support our program aimed at tackling longstanding—but increasingly arduous—challenges. These include, foremost, reducing the current level of unemployment—particularly for youth and women—and increasing growth, while starting to stabilize and reduce the high level of public debt. Our program also aims at continuing rebuilding fiscal and external buffers, preserving monetary stability, and supporting the exchange-rate peg. To address these challenges, we have developed a comprehensive medium-term economic program, underpinned by our Five-year Reform Matrix launched at the 2019 London Initiative. Our program balances the need for growth-enhancing structural reforms and continued fiscal adjustment, aimed at preserving macroeconomic stability, enhancing competitiveness by reducing business costs (particularly on labor and energy), strengthening our resilience and the conditions for more sustainable and inclusive economic growth, and reducing public debt to safer levels. The government must also work to ensure that the distribution of the tax burden becomes more progressive by tackling tax evasion. We will continue protecting the most vulnerable people through steadfast social safety nets, while enhancing the provision of public services and supporting good governance practices. We are confident that, as program implementation and structural reforms take hold, prevailing challenges will recede, binding constraints to unlocking growth will ease, and productivity and growth will accelerate. We are committed to resolute policy implementation and to preserve fiscal, monetary, and financial-sector buffers to safeguard against risks.

In this context, the full implementation of commitments made by the international community under the Jordan Compact and more recently under the 2019 London Initiative, together with continued support particularly in the form of budget grants, will be key to assisting Jordan to shoulder the burden of hosting 1.3 million Syrian refugees and to supporting our reform efforts. To help us achieve our program's goals, we request that the Fund provide financial support through a new extended arrangement under the Extended Fund Facility (EFF) for a period of 48 months in the amount of SDR 926.37 million (270 percent of quota). This arrangement, in conjunction with other official financing, is a testament that Jordan will continue to implement sound economic policies, take decisive actions to overcome the challenges it faces, and continue to exercise its role as a good global public citizen with regards to refugees from neighboring conflicts. We expect that the terms of the arrangement will strengthen investor confidence, enhance the economy's resilience to shocks, and support inclusive and balanced growth and job creation.

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the economic policies that we intend to implement under the EFF. The implementation of our program will be monitored through semi-annual quantitative performance criteria and structural benchmarks and quarterly indicative targets, as described in the MEFP and in the attached Technical Memorandum of Understanding (TMU). There will be eight semi-annual reviews by the Fund of the arrangement to assess progress in implementing the program and reach understandings on any additional measures that may be needed to achieve its objectives. The Government and the CBJ will provide the Fund with the data and information necessary to monitor performance under the program, including those specified in the TMU.

We believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our economic program, but we stand ready to take further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

We recognize the importance of completing a safeguards assessment by the first review of the EFF. In this regard, we have provided the necessary documentation and will receive a safeguards mission from the IMF as necessary.

We authorize the Fund to publish this Letter of Intent and its attachments, as well as the accompanying staff report.

Sincerely,

/s/	/s/
Mohamad Al-Ississ Minister of Finance	Ziad Fariz Governor of the Central Bank

Attachment I. Memorandum of Economic and Financial Policies

BACKGROUND

1. **Under our economic program supported by the 2016 extended arrangement under the Extended Fund Facility (EFF), we made progress in strengthening our external and fiscal positions and implementing structural reforms, but growth has remained subdued and public debt elevated**. Our external current account deficit has narrowed significantly and our fiscal position has improved since the 2016 EFF started, although the public debt ratio remains high. We made progress implementing structural reforms to enhance the business environment, through amendments to the business inspections, secured lending, and insolvency laws. We adopted a comprehensive energy-reform strategy, not only to support our fiscal adjustment efforts but also to reduce the high cost of electricity to businesses. We took steps to support job creation, including through amendments to the Social Security Law, Labor Law, and more flexible work practices, while also improving gender equality, strengthening the social safety net, and enhancing the livelihood opportunities for Syrian refugees. However, growth has remained subdued, reflecting a still challenging regional and domestic environment. For those that are employed by the private sector, real wages have not been sufficient to meet rising living costs.

2. **Economic growth has been insufficient to reduce the high level of unemployment.** Despite buoyant tourism and exports in the past few years, growth has remained soft at about 2 percent. We expect growth to rise to 2.1 percent in 2020 and to 3¼ percent over the medium term—supported by our structural agenda aimed at reducing businesses' energy and labor costs. Unemployment (excluding foreign labor) has continued to rise—reaching 19.1 percent in the third quarter, up from 18.6 percent in the same period of 2018—and remains particularly high for youth (44.4 percent) and women (27.5 percent). Headline inflation was subdued at under 1 percent (y/y) in 2019, down from 3–3½ percent during 2017–18, reflecting weaker domestic demand, lower import prices, and the phase out of inflationary pressures from past fiscal measures. Core inflation eased to 1¼ percent in 2019, compared to an average of 2½ percent over 2017–18. We expect core and headline inflation to converge to 2½ percent over the medium term.

3. **But external imbalances have narrowed significantly, on the back of a strong recovery in exports, tourism and favorable terms of trade.** The improved, albeit yet challenging, geopolitical climate in the region has given impetus to a pickup of tourist arrivals from established and new markets and a reversal in the loss of export market shares in neighboring countries. Our exports also benefitted from favorable trends in world prices of potash and phosphates, and the preferential access to the US under existing free-trade agreement. Our efforts to launch the operations of European low-cost airlines in 2018 further boosted tourist arrivals. At the same time, the demand for non-energy imports weakened, reflecting the decline in import-intensive FDI and lower import prices in 2019. These factors, combined with the decline in the 2019 energy import bill—driven by the resumption of gas imports from Egypt and drop in world energy prices—underpinned the narrowing of the current account deficit (including grants) from an average of about 9 percent of GDP over 2016–18 to a projected 2.9 percent in 2019.

4. The improved current account deficit in 2019 has helped prompt a significant turnaround in Jordan's international reserves. The CBJ's *net* international reserve (NIR) position was a comfortable $12.8 billion at end-2019 (corresponding to a gross reserve coverage of 98 percent of the Fund's ARA Metric). This was about $300 million below the level anticipated at the time of the last review under the 2016 EFF—owing to delayed donor disbursements and a postponed Eurobond issuance—but nonetheless represented a marked improvement compared to 2018; our reserve position increased by almost $950 million in 2019, compared to a *drop* of $1.2 billion in 2018. This performance was assisted in part by our well-balanced and prudent monetary policy. In line with rising U.S. interest rates, the CBJ increased its policy rate by 250 basis points between 2016 and 2018, helping to maintain confidence in the face of local and regional uncertainty. In this regard, deposit dollarization declined from 21.2 percent at end-2018 to 20.6 percent as of end-2019. Starting in late 2019, however, the CBJ has taken advantage of a loosening of U.S. policy to lower interest rates by 75 bps; helping to support the Jordanian economy while simultaneously communicating clearly with market participants and maintaining a close watch on market developments. In line with Jordan's subdued pace of economic growth, credit to the private sector has eased slightly from around 5 percent in 2018 to 4 percent in 2019.

5. Following initial progress, fiscal performance deteriorated in 2018-19 reflecting challenging economic conditions and unforeseen shocks. The combined public sector deficit (defined under the 2016 EFF as the central government primary deficit, excluding grants, plus NEPCO's operational deficit and the water-sector overall losses) declined from 7 percent of GDP in 2015 to 3 percent in 2017, but then reversed to 5.1 percent in 2019. Unforeseen shocks and economic pressures prevented our efforts from materializing in the envisaged fiscal adjustment during 2018-19. In particular, our ability to collect taxes was severely hampered by the sizable contraction of non-energy imports and increased cigarette smuggling, and by administrative delays in rolling-out the new income tax law. Further, the need to attend unbudgeted expenditures also added to the combined public deficit. Public debt, net of SSC's holdings of government debt, contracted from about 80 percent of GDP in 2015 to 77 percent in 2017, but then reversed to 79 percent in 2019.

6. Reflecting the first steps in the implementation of the energy-reform strategy, NEPCO secured operational balance in 2019. In early 2019, we were expecting NEPCO to register losses amounting to more than JD70 million, but these were contained by measures we took in line with our commitments under our energy-reform strategy.

- *Earnings and sales.* To prevent losses in 2019, we implemented upfront cost-saving measures including by increasing our intakes of less-expensive gas from Egypt, by achieving efficiencies and cost savings in LNG tanker handling services, and by optimizing our nominations on contracted LNG deliveries. NEPCO achieved higher revenues due to: (i) the increases in bulk tariffs charged to electricity distribution companies and (ii) increased domestic sales during the winter months of November and December. Reflecting lower international oil prices, we decreased the fuel clause from 24 to 10 fils, yielding an average reduction in electricity tariffs of about 8 percent during the first two months of 2019. In addition, we have made progress in our efforts to optimize future commitments. First, we imposed a moratorium on the signing of new generation contracts in order to limit the power generation overcapacity of the electrical system.

Second, we have hired financial and legal advisors to study options to reduce costs under our PPA portfolio.

- *Working capital.* In 2018, more than 60 percent of the electricity sector's receivables (about 2 percent of GDP) were owed by public sector entities. To clear the stock of legacy arrears, we implemented a one-time-settlement of intra-governmental liabilities across the involved entities (electricity distribution companies, NEPCO and the Ministry of Finance). To prevent any new accumulation of arrears to NEPCO, we adopted and implemented an electricity bill recovery mechanism to enable NEPCO to recover timely electricity bill payments from public agencies through the Ministry of Finance.

- *Debt optimization.* We contracted a financial advisor to conduct a comprehensive debt management plan for NEPCO. Our goals are to: (i) replace expensive short-term commercial debt with long-term blended finance to ensure a smooth debt service profile and reduce the interest burden; (ii) ensure the long term financial sustainability of the electricity sector and NEPCO, the single buyer at the heart of the sector; and (iii) effectively manage long term contingent liabilities arising from electricity sector contractual obligations guaranteed by the GoJ, including their potential macro-fiscal and public debt impacts.

7. Donor support—particularly grants and concessional financing—is instrumental in helping Jordan face the refugee crisis and its associated fiscal and social costs. In 2019, the shortfall between requested and received donor financing to address the needs of refugees increased to $1.4 billion from an average of $1 billion in 2017–18. These shortfalls continue to hamper the implementation of the economic reform program under the Jordan Compact, which is crucial to ensuring that Jordan can sustainably cope with the refugee crisis and to reduce macroeconomic vulnerabilities. Despite the fact that Jordan continues to provide services such as health and education, as well as necessary safeguards, for Syrian refugees, funding for the Jordan Response Plan to the Syrian Refugee Crisis was less than half of its required amount in 2019.

POLICIES FOR SAFEGUARDING MACROECONOMIC STABILITY

Our fiscal and monetary policies will continue to aim at safeguarding macroeconomic stability by reducing fiscal and external vulnerabilities. They will also ensure that fiscal viability is achieved not only by robust safeguarding of public finances, but by increased, strategic investments and policies that create equitable growth. A gradual and steady fiscal consolidation, and policies to contain NEPCO's and WAJ's losses, would help stabilize and start to reduce public debt over the program period, while preserving space for social and capital spending. Improvements in tax collection will also ensure that collected funds do not detract from the living standards of tax-compliant citizens. Monetary policy will continue to be anchored by the exchange rate peg, and the need to preserve an adequate buffer of foreign-exchange reserves.

A. Fiscal Policy

Central Government

8. Our fiscal strategy balances the need to limit the impact of fiscal consolidation on growth and to contain and start reducing public debt.

- **The 2020 budget reflects our commitment to firmly return the primary deficit to a downward path.** We have taken measures to underpin a primary deficit target of 2.3 percent of GDP for 2020, down from 3.8 percent of GDP in 2019. We expect that our efforts would yield additional revenues for about 1¼ percent of GDP, reflecting the full impact of the new income tax law, actions to prevent losses from excises on cigarettes, the non-renewal of cabinet-approved tax exemptions, and the restructuring of customs duties and fees in a manner that incentivizes compliance. In addition, we took steps to contain expenditure pressures following our decision to increase public sector wages and pensions in 2020, including through measures to compress non-priority current expenditure, a buy-out civil service scheme, and a cabinet decision to prohibit the use of treasury cash resources other than in budgeted allocations and unforeseen tax refunds. The ongoing COVID-19 outbreak may lead to potential deviations from our target, resulting from attending critical emergency and medical spending aimed at preventing, detecting, controlling, treating, and/or containing its spread. In this context, and in consultation with Fund staff, we have incorporated into our program an adjustor that would accommodate these potential exceptional unbudgeted expenditures, funded through exceptional treasury advances. We agree that if such treasury advances for COVID-19-related purposes exceed ½ percent of GDP, we will consult with Fund staff in how the program could be adapted to ensure its objectives remain achievable while ensuring our ability to meet needed COVID-19-related spending.

- **We are committed to sustained and gradual fiscal consolidation over the medium term to contain and begin to reduce public debt.** To place public debt (net of SSC's holdings of government debt) on a firmed downward path below 77 percent of GDP by 2024, we will implement additional fiscal measures yielding a cumulative 2.4 percent of GDP by 2024. The distribution of this fiscal adjustment over four years, combined with improved sequencing of policies, aims to prioritize stability of the economy. We plan to secure such an adjustment by balancing the need of revenue and expenditure measures. On the revenue side, measures would focus on: i) strengthening tax and customs administration; ii) arresting tax arbitrage opportunities and transfer pricing abuses in special economic zones; iii) redesigning investment incentives away from tax exemptions and towards reducing business costs; iv) revisiting the property taxation framework; and v) adjusting excises, if needed. On the expenditure side, actions would include: i) arresting the accumulation of fuel and health arrears; ii) targeting nominal annual growth of the public-sector wage bill (excluding the education and health sectors) at no more than the previous-year's inflation rate over the medium term; iii) securing efficiency gains in the provision of public health services; and iv) further rationalizing non-priority current expenditures, as warranted. We remain committed to clear the legacy stock of domestic arrears by end-2023 to ensure improved private sector liquidity and reduced spending inefficiencies.

9. We will dedicate efforts to enhance the targeting of our social safety net, to help accommodate other social needs, such as in health and education. In this regard, we will conduct a comprehensive review of our social spending envelope, and publish and implement an action plan to enhance its effectiveness and efficiency in coordination with the World Bank and UNICEF by end-September 2020. We continue implementing a three-year program to strengthen the social safety net in Jordan by almost doubling the coverage of the National Aid Fund (NAF)'s cash transfer program. To enhance its targeting and transparency, we will bring the National Unified Registry (NUR) online as single gateway for all Jordanians seeking social assistance by end-June 2020. Consistent with our commitment to protect priority social expenditure, our program will include a revised definition of social spending (indicative target), consisting of: (i) non-wage components of the education and health sectors' current expenditure envelope; (ii) NAF's social protection programs; and (iii) the school feeding program.

Public Utilities—Energy sector

10. Electricity-sector reform is at the core of our program's pro-growth agenda. We are committed to reduce the costs of electricity for businesses, which improves competitiveness, while designing well-targeted subsidies for the household sector. We will also seek to simplify the electricity tariff structure and move towards more economically efficient pricing, in which electricity tariffs for businesses get closer to the cost of service price. To this end, we will develop and adopt an action plan by end-June 2020 (benchmark) that will identify the measures and the sequencing to gradually reduce the cost of electricity for businesses to ensure the average electricity tariff for businesses fully converges to the average system-wide supply cost per kWh of the system. At the same time, the plan will design a program to direct household subsidies only to those who need them. These measures will be implemented in equal phases over three years during the program period, in a way which is budget neutral for NEPCO. Tariffs for the business sector will be based on the average system cost-of-service, with priority being given to cutting tariffs in key sectors for which a reduction in tariffs would yield the most important impact in terms of enhancing competitiveness, employment, and growth. On households, we will develop a well-targeted subsidy system for households who need them, that will gradually replace cross-subsidies contribution from businesses to households. To that end, the plan will define targeting criteria, building on analysis which will map household electricity consumption to household income using data provided by distribution companies, NAF, ISTD and DOS. The criteria could draw from other subsidy-targeting mechanisms already in place in Jordan. Other measures will seek to address distorted incentives created by existing tariffs which discourage consumption of electricity when the system marginal costs are low (e.g. during the day when low cost renewable energy is being supplied into the grid).

11. During 2020, we will implement the first steps of the action plan to reduce the cost of electricity for businesses. In consultation with IMF staff, we will implement measures to reduce the cost of electricity for businesses without incurring additional losses to NEPCO and by directing subsidies for only households who need it (benchmark). As part of these measures, we have already adopted a reduction in the marginal tariff for additional consumption of electricity for key businesses. We have also reduced electricity prices for small to medium industries, telecoms, hospitals and water pumping starting 2020. For households in 2020, we will impose connection fees for roof top solar owners, and apply a flat tariff based on the cost-of-service price for electricity purchased from the grid by these households. These measures are expected to yield about JD 45 million. By end-October 2020, we will implement additional measures to reduce electricity tariffs for businesses and better target subsidies for households who need them in order to achieve further reductions of one third (on an annualized basis) of the required adjustments – based on understandings with IMF staff (benchmark). This will constitute the first third of the overall remaining adjustments targeted by the three-year planned reform, and that are currently estimated to be around JD 225 million. By end-June 2020, we will also establish a robust communication plan to explain the purpose of the cross-subsidy reform and its expected impact on growth and employment.

12. We will adopt immediate measures to contain the losses we project for NEPCO in 2020. We expect that under unchanged policies and the prevailing tariff structure, NEPCO will register sizable losses in 2020 due to the coming on stream of an oil shale PPA. Our goal is to ensure that NEPCO's financial sustainability is maintained over the medium term, starting with concrete actions to contain losses in 2020.

- *Revenue enhancing measures*. Our priority is securing regional markets for the excess generation capacity and ensuring that the average cost of electricity decreases. In order to boost domestic demand, a cabinet decision has been passed to reduce marginal tariffs on electricity charged to productive sectors: a tariff of 75 fils per kWh will be charged for every additional kWh of electricity consumed by businesses, relative to their 2019 consumption. This reduced marginal tariff is meant to incentivize additional domestic consumption, prevent further exit of businesses from the grid towards self-renewable generation, and raise revenues for NEPCO. To increase revenues further, we are actively seeking agreements to export electricity to neighboring countries and will introduce a fixed fee for renewable energy systems that are connected to the grid. Finally, we will seek to install electricity meters for every house connected to the grid in order to reduce the number of illegal connections. This will allow the electricity sector to increase bill collection. Further tariff adjustments may be needed and will be assessed by the Energy and Mineral Resources Commission, as part of its quarterly review of tariffs.

- *Costs saving measures.* In 2020 and in the years ahead, NEPCO will continue to adopt measures to contain costs. First, we plan to continue switching gas supplies from more expensive LNG to less expensive gas from Egypt and the Mediterranean in 2020, and to further optimize the usage of LNG for national energy security after 2020. Second, NEPCO will seek to continue to reduce its costs related to LNG by implementing additional measures to reduce the costs of LNG storage and regasification. Third, to reduce costs further, we will explore options to optimize costs related to existing and future PPA commitments which impose large capacity charges on NEPCO.

- *Debt optimization.* In 2020, cabinet will approve NEPCO's debt optimization plan and implement its recommendations, aimed at reducing NEPCO's interest burden.

13. We will launch an external review of the most significant PPA. Building on a review already undertaken of all PPAs, we will issue a tender for an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA (prior action), with a view to the firm being hired by end-June (benchmark) and its review being completed by end-September 2020 and shared with Fund staff (benchmark). The review will be based on terms of reference prepared in consultation with the IMF staff and will be designed to: i) assess whether the project was in line with international best practices for negotiating and contracting PPAs, identify any governance concerns related to the process, and confirm its consistency with Jordanian law; and ii) ascertain the contracts' financial implications on NEPCO. We will make available all relevant contracts for this review to the firm undertaking the review.

Public Utilities—Water sector

14. We are fully committed to continue and scale up reforms in the water sector, in order to address the structural challenges associated with refugees and water security under climate change. We will focus our efforts on strengthening the finances and operations of the water sector through reforms aimed at containing water-sector losses and ensuring a sustainable path for the supply of water in Jordan. In 2020, we plan to implement the recently-announced transfer of the Water Authority of Jordan (WAJ) into the general budget, which would help control costs and strengthen its finances. We will ensure that WAJ continues publishing its financial reports independently, for the continued effective monitoring of its operations going forward. In addition, we will monitor the electricity consumption of the three water distribution companies (Aqaba, Miyahuna, and Yarmouk) and reassess their budgets by mid-2020 to ensure that they do not accumulate new arrears. We will conduct a comprehensive audit of the existing water sector infrastructure based on international standards in order to estimate the needs for maintenance costs of each water facility, to inform ahead appropriate budgeting of maintenance costs. We will also continue to implement the "Action Plan to Reduce Water Sector Losses" and issue progress reports on a regular basis to monitor implementation.

15. To reduce water-sector losses, we will prioritize measures to contain costs. Our approach will emphasize the need to contain energy costs through a cabinet-approved action plan designed and implemented by the Ministry of Energy and the Ministry of Water. The action plan will include a multi-year strategy of mutually-consistent policies that arrests the accumulation of arrears, including a ceiling on electricity tariffs charged to the water sector. To further contain costs, we will study the possibility to connect water sector facilities directly to NEPCO, instead of to electricity distribution companies. We will also assess the potential for joint projects, such as pump storage or the development of renewable energy for the water sector.

16. In addition, we will seek to increase revenues through non-tariff measures. We will implement projects for properly measuring non-revenue water to enhance the monitoring of progress in reducing non-revenue water and assess improvements in cost-recovery ratios. To reduce physical losses, we will use best practice procurement processes to generalize the use of performance-based contracts at the local level. We will also adopt measures to drastically reduce commercial losses arising from all sectors (households, industry and agriculture). We will install meters across houses and businesses to cut down on non-revenue water, and will strengthen the enforcement against illegal wells across the country. We will develop a study of the needs and financial impacts of water costs per sector, in order to ensure long-run sustainability of our non-renewable water resources, which are already being stressed by changing climate patterns in the region.

17. We will continue to closely monitor the development of PPPs in the water sector. We have made progress with the "Water Sector Capital Investment Program 2016–2025" to improve the access to and quality of water and wastewater services while safeguarding water security. We will contribute to the central planning and oversight of public investment. We will follow up-to-date tendering processes for the development and operation of mega projects. We will continuously estimate the impact that new PPPs may have on operational costs, in particular in relation to electricity consumption.

Structural Fiscal Reforms

18. To support revenue mobilization and combating tax evasion, we are implementing critical ongoing compliance improvement projects and other revenue initiatives at ISTD and Jordan customs, supported by recent technical assistance from the Fund. We have made substantial progress implementing the recommendations of the May 2019 technical assistance from the IMF's Fiscal Affairs Department (FAD). Among these, we have established new directorates at ISTD to monitor sectors with poor compliance, including: (i) establishments in development zones and free zones; (ii) professionals; and (iii) employees and payroll deductions. We have also revamped ISTD's audit function, through strengthened risk-based practices and the establishment of specialized audit teams for high-risk sectors in the large taxpayer directorate (LTD). We are committed to enhance the technical capacity of ISTD. In this regard, we will recruit 100 qualified staff, including new auditors, to be distributed across the LTD and three new directorates, in two phases: 50 by end-June 2020 and 50 by end-December 2020 (benchmark). Following recommendations from the January 2020 FAD TA, we will roll out compliance improvement campaigns for professional groups by end-December 2020. We remain committed to additional efforts to strengthen ISTD's registration, filing, and audit processes. To arrest smuggling tobacco activities and contain the trading of illegal brands, we will implement a digital track and trace system to monitor cigarette production by end-December 2020 (benchmark). Finally, we are committed to put in place an e-invoicing framework by end-December 2020 to strengthen the monitoring of economic activities, disincentivize under-invoicing through a random enforcement mechanism, and strengthen the audit function of the sales-tax framework. We expect these reforms to contribute in broadening the tax base and enhancing the equity of the tax system.

19. We will revamp governance and policy practices underpinning our investment incentives framework to prevent revenue leakage. On governance issues, we will put to an end the co-existence of our two parallel tax administrations and our two parallel customs services: ISTD and Jordan Customs, and the Aqaba Special Economic Zone Authority (ASEZA). In this regard, we will pass legislation to impose a single tax administration and a single customs service in Jordan, bringing ASEZA participants under ISTD and Customs national control by end-December 2020 (benchmark). Furthermore, to arrest the practice of using "letter-box companies" that do not produce in special economic zones but use their incentives for tax avoidance, we will introduce Economic Substance Regulations for all special economic zones by end-December 2020 (benchmark). On policy, we will submit to Parliament amendments to the 2014 Investment Law by end-September 2020 (benchmark) aimed at arresting tax arbitrage opportunities and transfer pricing abuses; rationalize investment incentives away from tax incentives and towards reduced business costs; and harmonized the different sales tax and customs duties regimes across the country. Such an amendment will be essential to support our fiscal strategy that will underpin the 2021 general budget.

20. Measures to strengthen public financial management will improve the management of fiscal risks and the monitoring of financial commitments, thereby preventing the continued accumulation of arrears. We are committed to put an end of the flow of new arrears and off-budget expenditures. On arrears, we will seek to: i) pass a cabinet decision to prohibit the issuance of medical exemptions other than through the existing mechanism at the Royal Court within well-established eligibility rules and budgeted allocation; ii) reassess the appropriateness of the budget allocation for medicine procurement in light of actual commitments by mid-2020; and iii) implement a monitoring mechanism of public sector consumption of oil products from the refinery. On arresting off-budget expenditures, we will secure: i) a cabinet decision to prohibit the use of treasury advances to pay for unbudgeted expenditures (prior action); and ii) conduct a comprehensive review of the underlying trust accounts, beneficiary ministries, and use of resources by end-September 2020, while limiting and monitoring their use pending this review (benchmark). In addition, we will conduct a mid-year review of the general budget and, with technical assistance from the Fund, we will reassess the structure and scope of the 2017 draft organic budget law, and submit to Parliament an amended draft law by end-December 2020.

21. Reforms will also aim at managing fiscal risks stemming from PPPs and SOEs. To take stock of underlying fiscal risks, we will undertake a comprehensive review of PPPs and PPAs. With the support of USAID, a third party will conduct a study aimed at identifying and quantifying fiscal commitments and contingent liabilities by end-December 2020. To support the monitoring of fiscal risks, and with the support of technical assistance from the Fund, we commit to restructuring the macro-fiscal unit at the Ministry of Finance.

B. Monetary and Financial Policies

22. Monetary policy will continue to be underpinned by our firm commitment to the exchange rate peg. In general, we have closely matched movements in U.S. interest rates—a clear and well-understood policy stance that has simultaneously maintained market confidence while also avoiding any potential disruption to expectations. The CBJ will continue to monitor domestic and external economic developments carefully, and will be ready to increase interest rates if reserves pressures emerge, and to ensure that reserve targets are met.

23. We will continue to ensure a strong and effective prudential and supervisory framework. Aggregate capitalization of 17 percent at end-June 2019 is well above the regulatory minimum of 12 percent (among the highest in the region), liquidity buffers remain comfortable, and profitability is strong. Non-performing loans have increased slightly from 4.9 percent in 2018 to 5.2 percent in mid-2019. In this regard, stress tests and sensitivity analysis published in the most recent Financial Stability Report (2018) underscore the sector's broad ability to withstand severe negative shocks to NPLs, equity prices, interest rates, and the exchange rate.

24. Bank supervision aims at maintaining the system's financial soundness and resilience. The CBJ will continue to monitor the banking sector closely, including for possible signs of slight deterioration in asset quality—which could lead to an uptick in credit risk from corporates and households. In the context of slowing credit growth, the central bank will also continue to monitor credit to households, with particular attention to the type and quality of lending. In addition, the CBJ will keep track of exposure to the real-estate sector. Should credit risks increase excessively from a financial stability perspective, the CBJ has a broad range of macroprudential tools at its disposal and will design an appropriate policy response.

25. The legislative and regulatory framework for banks will be strengthened further. Over the past few years we have continued with our comprehensive review of legislation covering the practices of the banking and financial sector. In 2018, we passed legislative amendments to the Deposit Insurance Corporation law to help ensure the establishment of a robust bank resolution framework in line with the FSB Key Attributes. Also, in 2018, we worked proactively with banks to ensure the smooth transition to IFRS9 accounting standards—instructions to banks covered the requirements of the three pillars covered by the new standard (classification and measurement, expected credit loss/impairment, and hedge accounting) but also included revised governance requirements to ensure sound implementation of the standard. Given the underlying prudence of previous standards, preliminary results suggest that the new requirements have had only a modest impact on NPL classification, provisioning, and capital adequacy. In 2019, important amendments were introduced to the Banking Law, which: (i) strengthened the corporate governance system; (ii) enhanced the resolution regime; (iii) strengthened the legal framework for Islamic banks; and (iv) advanced the use of electronic means/transactions in the banking sector and non-banking financial institutions. Also, in 2019, the CBJ issued instructions regarding large exposure limits for banks operating in Jordan, inclusive of subsidiary financial companies and banks, and branches in Jordan. The instructions clarified the definition and calculation of exposure, and included an exposure cap for parties involved in a relationship with the bank. New instructions regarding the application of liquidity standards are being finalized, and should be approved and circulated early in 2020.

26. We will continue enhancing the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. With the assistance of the Fund, we have completed a National Risk Assessment. This will contribute to our current review of the AML/CFT law and drafted amendments; ensuring that it is fully in line with Financial Action Task Force (FATF) standards and that it addresses all the practical issues faced by the AML/CFT Unit and other competent authorities in the course of implementing the AML/CFT law. Drawing on this assessment, we expect that amendments to the current AML/CFT law will be finalized and passed in early 2020. All regulatory agencies, including the CBJ with support from Fund technical assistance, have amended their regulations to ensure their conformity with FATF standards. Also, in line with IMF TA recommendations, we have put in place a risk-based framework for offsite and onsite supervision of banks and money-exchange firms and for other financial and nonfinancial institutions, as well as Non-Profit Organizations. A second-round mutual evaluation by MENAFATF has proceeded over the course of 2018, and a plenary discussion concluded in October 2019. The findings of this assessment are still being discussed, and will help inform the amendments to the AML/CFT law.

27. Initiatives to develop the nonbank financial sector will contribute to financial deepening. In particular:

- Amendments to the Insurance Law to allow for the transfer of the supervision of the insurance sector to the CBJ have been delayed. The law is currently before Parliament and is expected to be passed early in 2020, allowing for completion of the transfer by end-June 2020, and implementation of reforms to the sector's regulatory framework in line with recent IMF TA. This will help foster stronger supervision, minimize spillovers from the insurance sector to banks, as well as enhance financial development and inclusion.

- Nine microfinance institutions have been licensed according to the Microfinance By-law of 2015 and the instructions issued pursuant to it. The CBJ will continue to develop and implement the instructions required for the efficient supervision and monitoring of the microfinance sector.

STRUCTURAL POLICIES TO PROMOTE JOBS AND GROWTH

We will continue to tackle long-standing impediments to growth in the areas of business costs and environment (including access to finance) and competitiveness, labor market, and governance; building on the effective implementation of the Jordan Economic Growth Plan, and anchored in particular by the Five-Year Reform Matrix launched at the 2019 London Initiative. This will help in making growth strong, sustained, and job-creating while supporting debt sustainability. These reforms will promote physical and human capital accumulation and total factor productivity.

28. Strengthening the business environment will help foster investment and enhance competitiveness. Our efforts in this area focus on reducing the cost of starting and operating businesses including through simplifying procedures, eliminating red tape, and further strengthening investor protection:

- To improve the overall governance of private sector-related policymaking, we have launched the "Regulatory Predictability Framework," which focuses on improving the process of issuing regulations, instructions, and decisions that affect businesses. In September 2019, six government entities launched their own pilot initiatives aimed at reengineering their regulatory processes in line with the new framework.

- In addition, in January 2020 we launched a broad reform agenda centered around the "Investor's Journey," which is a program that seeks to prioritize Jordan's business-environment reforms from the perspective of the investor, covering registration, licensing, inspection, and advertising.

- On inspections, the 2017 Inspections Law streamlines the inspection mandates and processes of a number of inspectorates in Jordan, and will improve the business environment by reducing the burden on the private sector resulting from overlapping inspection mandates and unplanned inspection visits, and by reducing uncertainty by introducing risk-based targeting while raising business awareness on compliance requirements. The law emphasizes the role of the Higher Committee for Inspection Reform as the national umbrella for business inspections. The bylaws for this legislation were enacted October 2018.

- On licensing, Parliament has abolished the Crafts and Industries Law (1953), removing the need for unnecessary health licenses, and serving as a first step towards eliminating duplicative licensing requirements. Going forward, we will streamline municipal licenses by amending the Vocational Licensing Law for the Greater Amman Municipality (GAM) as well as the Vocational Licensing Law for Municipalities, and will issue associated By-laws and instructions by end-June 2020. We have already started implementing the Licensing Reform Policy Paper adopted by Council of Ministers in January 2019, and with the assistance of the World Bank we have undertaken a thorough stock take of existing sectoral licensing requirements. We will streamline those licenses identified under the policy as serving a legitimate public-policy objective, and will move swiftly to abolish those licenses that can instead be replaced by alternative registration or notification procedures. In this regard, we will abolish sectoral licenses in the media, education, and tourism sectors by end-June 2020, and will by end-December 2020 issue clear instructions abolishing those licenses that have been identified as lacking a clear legal basis.

- On permits, we will by end-June 2020 issue instructions eliminating the requirement for firms seeking a construction permit to first obtain approvals from the water, electricity, and telecommunications authorities. In addition, we will issue instructions by end-June 2020 requiring that all customs-clearance requests (including submission of certificates of origin and invoices) be submitted and processed electronically.

- More broadly, as an essential component of streamlining the investor journey, and to help government agencies better coordinate and simplify their registration, licensing, and inspection requirements for any particular business, we will adopt the ISIC4 classification framework across all government entities within approximately a year.

29. Reforms to facilitate access to finance will help broaden the reach and usage of financial services. Given the important role of Small and Medium-sized Enterprises (SMEs) in Jordan's economy, and given also their historic exclusion from traditional sources of finance, closing the financial inclusion gap for these firms is a core policy objective—one which should boost economic growth and job creation, while simultaneously supporting financial stability and also adding to the effectiveness of monetary and fiscal policy. Jordan's commitment to this goal has recently been reflected in a significant improvement in the country's Doing Business score, especially for those items associated with "access to credit," where Jordan now ranks 4th globally.

- Jordan's credit bureau started operating in 2016. By expediting credit risk assessments of borrowers, including Small and Medium-Size Enterprises (SMEs), the bureau has significantly improved lenders' ability to accurately assess risk, and so has increased their willingness to lend to a broader range of clients. The bureau's information collection now covers all banks and is being progressively extended to cover insurance and leasing companies, microfinance institutions, public utilities, and telecommunication companies. The bureau has provided credit scores for borrowers since 2019, and is continually exploring the potential for further value-added services; improving lending decisions for both traditional and non-traditional borrowers alike.

- To improve access to finance, including for SMEs: (i) the CBJ and the commercial banks have co-financed a $50 million fund, managed by the Jordan Loan Guarantee Corporation (JLGC), to provide loan guarantees to SMEs start-ups; (ii) with the financial assistance from the World Bank, in December 2017 we established a $100 million equity fund, the "Innovative Startups and SMEs Fund" (ISSF), that will be managed by JLGC to provide capital to start-ups; and (iii) we have created an export guarantee fund (managed by JLGC) which has been provided with capital in the form of a JD100 million loan from the CBJ.

- Also on SMEs, we passed in May 2018 a secured transactions law, which will allow SMEs to use moveable assets as collateral. The associated bylaws were enacted in October 2018, and we also launched a Collateral Registry for movable assets that year.

- We also passed amendments to the Insolvency Law in 2018, with associated bylaws enacted in January 2019, that brings the law in line with best practice by providing adequate protection of creditors rights, unhindered access to an insolvency system, expedited liquidation of unviable companies, and a range of mechanisms for restructuring/rescuing of viable businesses. In 2020 we will move proactively to put this new framework in place, training licensed insolvency practitioners and judges, and establishing the Insolvency Committee. By end-December 2020, we will operationalize an electronic insolvency registry.

- The CBJ has established a new division in the payments department in charge of promoting financial inclusion and payment options in Jordan. With the help of GIZ, in 2017 the CBJ conducted a comprehensive study assessing the detailed level of financial inclusion in Jordan and identifying key issues and challenges. Based on the study's findings, and in cooperation with relevant stakeholders and development partners, we published in 2017 a Financial Inclusion Strategy for 2018-20. The strategy aimed to: enhance access, use, and quality of financial services, particularly for SMEs; further develop necessary infrastructure (credit bureau and payment system); enhance digital financial services; improve access to Microfinance; promote financial literacy; strengthen financial consumer protection; and build a comprehensive data base at CBJ to monitor and measure developments in financial inclusion. We finalized and published a concrete action plan for the inclusion strategy in June 2018, and followed that with a framework for monitoring and evaluation progress under the plan. For 2020, we will draw on the results of this framework to publish a Financial Inclusion Report, which will outline progress so far. In addition, early in 2020 we will commission a further study on the state of financial inclusion in Jordan, to be completed by end-2020 (benchmark). This study may help inform an updated strategy for 2021-23.

30. We will promote job creation through broad-based labor market reforms, with a focus on measures to support youth and female employment. In this regard, we are working on addressing remaining challenges in the structure, flexibility, and performance of the labor market, including issues related to labor market segmentation.

- To promote labor market flexibility and so expand employment opportunities for new labor-market entrants (including youth and women), the By-law on Flexible Work was approved by the Council of Ministers in 2019, redefining the minimum wage on an hourly basis rather than a monthly basis. Also, from 2017 the Ministries of Industry, Trade and Supply (MoITS), Municipal Affairs (MoMA), and the Greater Amman Municipality (GAM) have engaged in a coordinated effort to amend the legislative and institutional system that regulates home-based businesses—the new framework now covers all Jordanian governorates and a wider range of professions, reducing licensing costs and facilitating the registration of home-based employment activities.

- To further reduce labor market segmentation, and in line with our commitments at the London Initiative, we will take steps to guarantee that private sector salaries are more aligned with public-sector wages. When comparing individuals with similar levels of education, age, and gender, recent studies suggest that a public sector salary is on average 21 percent higher than one in the private sector, and this premium has increased substantially since 2007, when it was around 6½ percent. With the assistance of the World Bank, therefore, we will complete by end-December 2020 a focused study on the public-sector premium that will help identify concrete reform options going forward.

- To facilitate access of Syrian refugees to formal employment, more work permits have been issued to Syrian refugees in Jordan, mostly in the sectors of agriculture, construction and manufacturing, which are open to non-Jordanian workers. Moreover, in 2017 Jordan extended flexible work permits for Syrian refugees to cover refugees working in the construction sector (under the umbrella of the Jordanian General Federation of Trade Unions). These permits allow workers to move from one employer to another, and to perform tasks as self-employed individuals. In addition, in November 2018, the Ministry of Labor issued a decree allowing Syrians to operate home-based businesses in select sectors (food processing, handicrafts and tailoring).

- More broadly, a key aim of our policy is to promote the formalization of Jordan’s workforce, reducing the segmentation between the formal and informal sectors, and so adding to efficiency, inclusiveness, and growth. To this end, we will be reviewing identification and registration requirements for both Jordanians and non-Jordanians to better ensure that all workers within Jordan are placed on an equal footing.

- As an additional measure to encourage formality, we have also considered a more flexible approach to social security contributions for youth and new hires—for example, temporarily reducing the employer's contribution to the social security corporation when a start-up hires a new entrant to the labor market. In this regard, we have amended the Social Security Law to allow for reduced contributions for start-ups hiring young workers, and have introduced these lower contribution rates in the Agricultural and ICT sectors. Going forward, we will by end-June 2020 expand these reduced rates to all economic sectors (benchmark).

- In this regard, to ease tensions in the labor market, we have also acted to rationalize the flow of new guest workers. We have, since June 2016, largely halted the addition of new low-skilled guest workers, while adopting a flexible approach to encourage the renewal of work permits for guest workers already in Jordan; easing the ability of guest workers to move between sectors, and providing steep discounts or waivers for permit fees.

- To improve gender equality, in addition to the flexibility-enhancing measures outlined above, we have removed all references to gender in Ministry of Labor instructions that can be used to discriminate against women, and have amended key by-laws that had previously restricted working hours for females. We have also adopted by-laws removing any potential discrimination between mothers and fathers regarding daycare requirements, and establishing paternity leave—the labor law mandates that firms with more than 20 parent employees provide daycare for children under five. We are now working on by-laws and instructions that will clarify the acceptable modalities through which firms can provide this care. These will be approved and circulated by end-June 2020 (benchmark). Quality daycare is recognized within the current National Strategy for Human Resource Development as a critical component of early development and education, contributing not only to female participation and inclusion in the workforce over the short run, but also helping ensure that Jordan's economy has a workforce with the skills, qualifications, and capabilities needed to secure its prosperity over the long run.

- As an additional step towards ensuring gender equality in the work force, we are working to enhance the quality and reliability of public transport. Recent studies show that 47 percent of women reported that they turned down or gave up job opportunities owing to the current state of public transportation, with harassment being one of their main concerns. In response we have developed and adopted a Code of Ethics and Professional Conduct for the transport sector, which will regulate passenger, driver and operator conduct in public transport, and which will tackle harassment in the public transport system. The Code of Conduct is now under implementation, and we are developing clear certification criteria, along with effective training and complaints processes. More generally, we are working to consolidate and enhance the quality of bus services in Jordan's major cities. In line with the 2017 Public Transport Law, we are consolidating the individual ownership of buses into companies, with an initial focus on Jerash and Amman. We are also revising the Public Transport Strategy for the cities of Irbid, Madaba, Zarqa and Salt, and consultations with the operators have started. Bus fleet consolidation and modernization should be complete by end-2022. The General Amman Municipality (GAM) is also developing Jordan's first Bus Rapid Transit (BRT) system, which should start operations within Amman by mid-2021. The Amman BRT will also benefit from a complementary interurban BRT project connecting Amman and Zarqa, which should start operations in 2022.

- Finally, to help reduce youth unemployment we are streamlining and enhancing our technical and vocational education and training (TVET) efforts, and are working on legislation that will bring our existing initiatives under a single umbrella. We will also step up enforcement of existing certification regulations, to raise the profile and demand for formal technical training and certification. In addition, we launched in 2019 a new "National Service" program, which is a three-month non-mandatory course that will offer youth key skills and career opportunities in targeted sectors. We aim to train 20,000 participants through this program over a two-year cycle. Also, through the National Empowerment and Employment Program (NEEP), launched in

March 2019, we are promoting on-the-job training, offsetting the upfront cost of training a new hire (for six months) on the condition that the employee be retained for three years. This program has been working well and will be expanded over the next 2–3 years, potentially reaching over 30,000 job seekers. Combined, the TVET, National Service and NEEP efforts are expected to boost job creation significantly.

31. Measures to improve competitiveness will help bolster diversification and export growth.

- Jordan's transport and logistic sector is an important driver of competitiveness, growth, and job creation. The 2015 Long-Term National Transport Strategy and Action Plan highlighted a number of concerns in the trucking industry, which is both highly fragmented and subject to access restrictions at Aqaba port. Although development of an appropriate consolidation strategy is complicated by the extraordinary circumstances currently facing the industry—the disruption of Jordan's traditional trade route has resulting in a marked, albeit transitory, oversupply of trucking services—we nonetheless recognize the need for reform in order to fully benefit from potential gains in scale and scope. We will seek World Bank support to design, develop, and implement measures that will reduce market distortion, while defining an incentive mechanism to reduce, renew or consolidate the truck fleet to enhance the efficiency of cargo transport for containers for the Aqaba-Amman corridor.

32. Progress in strengthening governance and fighting corruption will be important for growth, inclusion, and the maintenance of broad public support for our reform agenda.

- As a key component of our governance program, a well-functioning public procurement system will help advance inclusive growth and service delivery through more efficient, transparent, and accountable public spending. In 2019, we enacted a new Unified Public Procurement By-law providing for the establishment of an independent central policy and oversight unit, as well as an independent complaints-handling unit. In addition, the by-law contains provisions on framework agreements, electronic Government Procurement (e-GP), and alignment of SOE procurement practices with the provisions of the By-law.

- As a vital first step in implementing this by-law, we will within 2020 establish an independent Central Policy and Oversight Unit together with an independent Complaints-Handling Mechanism. In line with international best practice, and to minimize any perceived conflicts of interest, these units will be autonomous from the main operational procuring entities subject to their oversight.

- In addition, we will by end-December 2020 finalize the issuance of all regulations and standard bidding documents needed to support implementation of the by-law.

- Further, the Units will monitor and guide the development of the procurement system—helping empower SMEs, women, and youth by facilitating their access to opportunities in the procurement market; and promoting other inclusive growth goals. As a first step, and to provide greater incentives for formalization, by end-December 2020 the Units will develop and clarify procurement criteria that ensure bidding companies use only formal employees/subcontractors, and will develop a plan to set aside public procurement quotas for SMEs.

- To enhance efficiency, transparency, and accountability, we will roll out an integrated e-procurement system and digitized procurement cycle processes that align with the Government's broader digitization agenda. The e-Government Procurement (e-GP) system, JONEPS, will ensure the highest levels of integrity, transparency, and fair competition. Having endorsed the JONEPS enhancement strategy in 2019, we will expand the system to cover all public institutions at the ministerial level as well as at municipalities by end-December 2021.

33. We have amended the Illicit Gains Law by expanding the employees subject to financial-disclosure requirements. These now include heads and members of ad-hoc municipal councils, executive directors of municipalities, and heads and members of governorate councils. Going further, we will strengthen the role of the Jordan Integrity and Anti-Corruption Commission (JIACC) in the monitoring and oversight of this process. By end-December 2020 we will propose amendments to the Illicit Gains Law , prepared in consultation with Fund staff, to require that all disclosures be submitted to the Commission; to ensure that all disclosure information is maintained within an electronic database, which can be shared across relevant government agencies; and to allow more public access to basic financial disclosure information by public officials (benchmark) to increase public trust and accountability.

PROGRAM MONITORING

34. Progress in the implementation of our policies, which are supported by the IMF, will be monitored through semi-annual reviews, quantitative performance criteria (PCs), indicative targets, and structural benchmarks. These are detailed in Tables 1 and 2, with definitions and data requirements provided in the attached Technical Memorandum of Understanding. Quantitative targets for June and December 2020 are PCs. IMF disbursements will be on-lent to the government during the program period. We will update the Memorandum of Understanding between the CBJ and the Ministry of Finance on responsibilities for servicing financial obligations to the IMF.

35. We recognize the importance of completing a safeguards assessment by the first review of the EFF. In this regard, we have provided the necessary documentation and will receive a safeguards mission from the IMF as necessary.

Table 1. Jordan: Quantitative Performance Criteria and Indicative Targets, June 2020–March 2021 1/

	Jun-20	Sep-20	Dec-20	Mar-21
	Performance Criteria	Indicative Target	Performance Criteria	Indicative Target
Performance Criteria				
Primary fiscal deficit of the central government, excluding grants and net transfers to NEPCO and WAJ, in JD million (flow, cumulative ceiling)	320	486	743	53
Combined public deficit in JD million (flow, cumulative ceiling)	575	919	1,302	221
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	13,060	12,753	14,462	14,317
Ceiling on accumulation of external debt service arrears 2/	0	0	0	0
Indicative Targets				
Social spending by the central government in JD million (flow, cumulative floor)	257	385	514	141
Public debt in JD million (stock, ceiling) 3/	25,623	26,178	25,825	26,261
Domestic payment arrears of NEPCO in JD million (stock, ceiling) 4/	0	0	0	0
Domestic payment arrears of WAJ in JD million (stock, ceiling) 5/	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million (stock, ceiling) 6/	0	0	0	0
Net Domestic Assets of the Central Bank of Jordan in JD million (stock, ceiling)	-1,054	-746	-1,642	-1,473
SSC net financing to the central government (flow, ceiling)	318	384	485	234
Memo items for adjustors				
Foreign budgetary grants and loans received by the central government (JD millions, flow)	109	162	1,020	0
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from end-December 2019)	1,340	1,415	3,894	3,894
Programmed stock of the combined health and energy arrears (JD millions)	280	245	230	210
Stock of checks issued by the central government but not yet cashed by the beneficiary (JD millions)	…	…	200	…
IMF purchases under the EFF (JD millions, flow, cumulative from end-December 2019)	100	201	201	302

1/ Quantitative performance criteria and indicative targets under the Fund-supported program.

2/ Continuous.

3/ Public debt includes central government debt (including off-budget project loans) and government-guarantees to NEPCO, WAJ, and other public entities, net of SSC's holdings of government debt.

4/ Arrears owed by NEPCO only, to all entities. Excludes debt to the central government, which is not expected to be repaid, with central government having assumed the costs.

5/ Arrears owed by WAJ only, to all entities. Excludes advances from Central Government for which WAJ does not pay interest and that do not have established maturity.

6/ Arrears owed by Aqaba, Miyahuna and Yarmouk Distribution Companies only, to all entities. Excludes advances from Central Government for which Aqaba, Miyahuna and Yarmouk Distribution Companies do not pay interest and that do not have established maturity.

Table 2. Jordan: Structural Benchmarks, 2020

Item	Measure	Time frame (by end of period)
	I. Prior Actions	
1.	Enactment of the 2020 general budget consistent with program understandings.	
2.	Passage of cabinet decision to prohibit the use of treasury cash resources other than in budgeted allocations and previously-identified advances, including COVID-19-related emergency outlays and medical supplies and equipment.	
3.	Issue a tender, based on terms of reference prepared in consultation with IMF staff, for an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA.	
	II. Structural Benchmarks	
	Cost of Doing Business	
1.	Adopt a multi-year plan – budget neutral for NEPCO – to reduce electricity tariffs of key sectors so that average electricity tariffs on corporates aligns with the average supply cost per kWh, and household subsidies are re-directed to only those who need it by end-2024.	June, 2020
2.	Implement measures in 2020, in addition to those already taken, equal to JD75 million (on an annualized basis) to permit a reduction in tariffs paid by businesses.	October, 2020
	Labor market	
3.	Issue by-laws and/or instructions aimed at increasing access to affordable childcare.	June, 2020
4.	Expansion of targeted temporary reductions in social-security contributions to all new startups.	June, 2020
	Financial Development	
5.	Publication of a regular Financial Inclusion Report and a follow-on Financial Inclusion Action plan for 2020-21.	December, 2020
	Governance	
6.	Hire an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA.	June, 2020
7.	Completion of the comprehensive review of the most significant PPA by an international accounting, consulting or legal firm, with the review shared with Fund staff.	September, 2020
8.	Submit to parliament amendments to existing legislation to allow greater public access to basic financial disclosure information by public officials.	December, 2020
	Fiscal reforms	
9.	Recruit 100 qualified staff (two phases: 50 by end-June and 50 by end-December), including new auditors, to be distributed across the large taxpayer directorate and newly-created ISTD directorates monitoring: (i) establishments in special economic zones; (ii) professionals; and (iii) employees and payroll deductions.	June, 2020 (first phase); December, 2020 (second phase)
10.	Conduct a comprehensive review of the underlying trust accounts, beneficiary ministries, and use of resources, and its consistency with budget needs and practices, while limiting and monitoring their use pending this review.	September, 2020
11.	Submit to Parliament an amended Investment Law that addresses tax arbitrage opportunities and transfer pricing abuses, and rationalizes investment tax incentives.	September, 2020
12.	Implement the Digital Volume Verification System (track and trace system) to monitor tobacco production and reduce cigarette smuggling.	December, 2020
13.	Pass legislation to impose a single tax administration and a single customs service for Jordan, bringing ASEZA participants under ISTD and Customs national control.	December, 2020
14.	Pass legislation to introduce Economic Substance Regulations for all special economic zones.	December, 2020

Attachment II. Technical Memorandum of Understanding (TMU)

1. This memorandum sets our understandings between the Jordanian authorities and IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements for the arrangement under the Extended Fund Facility.

2. The program performance criteria and indicative targets are reported in Table 1 attached to the Memorandum of Economic and Financial Policies (MEFP) dated [March xx], 2020. The exchange rates and gold price for the purposes of the program are those that prevailed on December 31, 2019. In particular, the exchange rate of the Jordanian dinar to the U.S. dollar is set at JD 0.709 = $1 and the gold price is set at JD 1046.52 per fine troy ounce for the measurement of the program performance criterion on net international reserves. The corresponding cross exchange rates are provided in the table below.

Program Exchange Rates	
Currency	**Jordanian Dinar Per Unit of Foreign Currency**
British Pound	0.911106
Japanese Yen	0.006505
Euro	0.786889
Canadian dollar	0.538721
SDR	0.975744

3. Any developments that could lead to a significant deviation from quantitative program targets will prompt discussions between the authorities and staff on an appropriate policy response.

4. For program monitoring purposes, debt is defined as set forth in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.[1,2]

[1] SM/14/304, Supplement 1.

[2] (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the

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QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE TARGETS, AND CONTINUOUS PERFORMANCE CRITERION: DEFINITIONS

A. Quantitative Performance Criteria and Indicative Targets

5. The quantitative performance criteria and indicative targets specified in Table 1 attached to the MEFP are:

6. A performance criterion (ceiling) on the primary fiscal deficit of the central government excluding grants and net transfers to the National Electric Power Company (NEPCO), and the Water Authority of Jordan (WAJ) and Aqaba, Miyahuna, and Yarmouk water companies ("state-owned water sector");

7. A performance criterion (ceiling) on the combined primary deficit of the central government (as defined above), the operational loss of NEPCO, the overall deficit of WAJ, and the overall deficit of Aqaba, Miyahuna, and Yarmouk water companies ("combined public deficit");

8. A performance criterion (floor) on the net international reserves (NIR) of the Central Bank of Jordan (CBJ);

9. A continuous performance criterion (zero ceiling) on the accumulation of external debt service arrears;

10. An indicative target (floor) on social spending by the central government;

11. An indicative target (ceiling) on public debt, net of SSC's holdings of government debt;

12. An indicative target (ceiling) on the domestic payment arrears of NEPCO;

13. An indicative target (ceiling) on the domestic payment arrears of WAJ;

14. An indicative target (ceiling) on the domestic payment arrears of Aqaba, Miyahuna, and Yarmouk Water Companies;

15. An indicative target (ceiling) on the net domestic assets (NDA) of the CBJ.

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lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

16. An indicative target (ceiling) on the Social Security Investment Fund's net financing to the central government.

17. The performance criteria on the central government's primary fiscal deficit and the combined public deficit, as well as the indicative targets on social spending by the central government are monitored semi-annually (with indicative targets for the other quarters) on a cumulative basis from the beginning of the calendar year. The performance criterion on the NIR and the indicative targets on public debt, short-term public debt, domestic payment arrears of NEPCO, WAJ, and Aqaba, Miyahuna, and Yarmouk Water Companies, and NDA of the CBJ are monitored semi-annually (with indicative targets for the other quarters) in terms of stock levels. The performance criterion on the accumulation of external debt service arrears is monitored on a continuous basis.

B. Ceiling on the Primary Deficit of the Central Government Excluding Grants and Net Transfers to NEPCO and state-owned water sector

18. The **central government** is defined as the budgetary central government that is covered by the annual General Budget Law (GBL). It includes all ministries and government departments that operate in the context of the central authority system of the state. The operations of the central government will be measured on a cash basis.

19. For program monitoring purposes, **the primary deficit of the central government excluding grants and net transfers to NEPCO and the state-owned water sector** is defined as the sum of: (i) net external financing of the central government; (ii) receipts from the sale of government assets received during the relevant period; (iii) net domestic bank financing of the central government; (iv) net domestic nonbank financing of the central government; (v) grants received from abroad by the central government, including grants from the Gulf Cooperation Council; *less* (vi) domestic and foreign interest payments by the central government; and (vii) net transfers from the central government to NEPCO and the stated-owned water sector.

20. **Net external financing of the central government** is defined as cash external debt disbursements received by the central government, *less* external debt repayments paid by the central government. The debts covered are debts of the central government (excluding debts outside the general budget) and any foreign debts that are channeled through the central government to finance operations of the rest of the public sector.

21. **Receipts from the sale of government assets** consist of all transfers of monies received by the central government in connection with such operations. This includes receipts from the sale of shares, the sale of non-financial assets, as well as leases and the sale of licenses or exploration rights with duration of 10 years and longer.

22. **Net domestic bank financing of the central government** is defined as the change in the banking system's claims in Jordanian dinars and in foreign currency on the central government, net of the balance of the General Treasury Account with the CBJ.

23. Net domestic nonbank financing of the central government is defined as central government borrowing from, less repayments to, the non-bank sector (including the nonfinancial public sector not covered by the general budget, and, specifically, the Social Security Investment Fund), and the cumulative change from the level existing on December 31 of the previous year in the stocks of government securities held by nonbanks and in the float.

24. Net transfers from the central government to NEPCO and the state-owned water sector are calculated as (i) direct transfers from the central government to NEPCO and the state-owned water sector (or NEPCO and the state-owned water sector's creditors) on behalf of NEPCO and the state-owned water sector (including subsidies, cash advances, and payment of debt or government guarantees if called), *minus* (ii) any transfers of cash from NEPCO and the state-owned water sector to the central government (including repayments of debt, arrears or cash advances).

25. Adjustors: The ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and the state-owned water sector will be adjusted:

26. Downward by the extent to which foreign budgetary grants received by the central government (as **specified** in Table 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum of 75 percent of the shortfall.

27. Downward by the extent to which the combined stock of health and energy arrears by the central government falls above of the projected combined stock of health and energy arrears specified in Table 1 of the MEFP, excluding any one-off settlement operation (such as the write-off of intra-governmental claims).

28. Downward by the extent to which the stock of checks issued by the central government but not yet cashed by the beneficiary exceeds JD 200 million (the programmed stock as specified in Table 1 of the MEFP) in case of the end-year indicative target or performance criterion.

29. Upward by the equivalent amount of unbudgeted spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19, covering emergency outlays and medical supplies and equipment. These exceptional unbudgeted expenditures will be authorized by cabinet resolution and funded through exceptional treasury advances (therefore not funded and reported as part of 2020 budget allocations), with amounts and the nature of expenses reported to staff monthly. If treasury advances for these purposes exceed ½ percent of GDP, the authorities will consult Fund staff in how the program could be adapted to ensure its objectives remain achievable while ensuring there is needed COVID-19-related spending..

C. Ceiling on the Combined Public Deficit

30. For program monitoring purposes, **the combined public deficit** is defined as the sum of: (i) the primary deficit of the central government excluding grants and net transfers to NEPCO and the state-owned water sector of the central government as defined in Section B; (ii) the operational loss of NEPCO; and (iii) the overall deficit of the state-owned water sector.

31. The **operational loss of NEPCO** is defined as the difference between total operating revenues and total costs for normal operations conducted within the year as reported in the unaudited income statement. Total operating revenues are defined as the sum of: (i) sales of operating power; and (ii) all other revenue, excluding proceeds from central government transfers or payments of NEPCO's obligations on NEPCO's behalf. Total costs are defined as the sum of: (i) purchase of electric power, including fuel costs, capacity and energy charges, and all costs related to electricity generation to be borne by NEPCO; (ii) any fuel transportation costs; (iii) depreciation costs; (iv) all other maintenance and operating expenses, including on wages and remuneration of the board of directors, and provisions; and (v) interest expense and any other financial costs.

32. The **overall balance of the state-owned water sector** is defined as the difference between total revenues and current and capital expenditures. Total revenues are defined as the sum of: (i) sales of goods and services; (ii) property income; and (iii) all other revenue, excluding grants and proceeds from central government transfers or payments of WAJ, Aqaba, Miyahuna or Yarmouk water companies' obligations on WAJ, Aqaba, Miyahuna or Yarmouk water companies' behalf. Current and capital expenditures are defined as the sum of: (i) salaries, wages and allowances; (ii) social security contributions; (iii) use of goods and services, including energy costs; (iv) interest payments on domestic and foreign loans; (v) any other expenses, including pensions; and (v) capital expenditures.

33. **Adjustors:** The ceiling on the combined public deficit will be adjusted:

34. Downward by the extent to which foreign budgetary grants received by the central government (as specified in Table 1) during the relevant period falls short of the levels specified in Table 1 of the MEFP up to a maximum of 75 percent of the shortfall.

35. Downward by the extent to which the combined stock of health and energy arrears by the central government falls above of the projected combined stock of health and energy arrears specified in Table 1 of the MEFP, excluding any one-off settlement operation (such as the write-off of intra-governmental claims).

36. Downward by the extent to which the stock of checks issued by the central government but not yet cashed by the beneficiary exceeds JD 200 million (the programmed stock as specified in Table 1 of the MEFP) in case of the end-year indicative target or performance criterion.

37. Upward by the equivalent amount of unbudgeted spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19, covering emergency outlays and medical supplies and equipment. These exceptional unbudgeted expenditures will be authorized by cabinet resolution and funded through exceptional treasury advances (therefore not funded and reported as part of 2020 budget allocations), with amounts and the nature of expenses reported to staff monthly. If treasury advances for these purposes exceed ½ percent of GDP, the authorities will consult Fund staff in how the program could be adapted to ensure its objectives remain achievable while ensuring there is needed COVID-19-related spending.

D. Floor on the Net International Reserves of the CBJ

38. For program monitoring purposes, **the NIR of the CBJ** in U.S. dollars are defined as foreign assets of the CBJ minus its foreign liabilities.

39. **Foreign assets of the CBJ** are readily available claims on nonresidents denominated in foreign convertible currencies. They include foreign exchange (foreign currency cash, deposits with foreign correspondents, and holding of foreign securities), monetary gold, IMF reserve position, and SDR holdings. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contract), CBJ's claims on resident banks and nonbanks, as well as on subsidiaries or branches of Jordanian commercial banks located abroad, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forward, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, and illiquid swaps. Excluded from foreign assets is the outstanding balance of bilateral accounts with the Central Bank of Iraq of USD 1,081.67 million.

40. **Foreign liabilities of the CBJ** are defined as all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forward, swaps and options, including any portion of the CBJ monetary gold that is collateralized), and Jordan's outstanding liabilities to the IMF. Excluded from reserve liabilities are government foreign exchange deposits with the CBJ, deposits from public institutions and government departments with independent budgets, commercial companies with state participation, deposits from donors (including grants received from the GCC and donor term deposits with the CBJ with remaining maturity not less than 360 days), the two technical swaps with Citibank Jordan for USD 88.5 million, and amounts received under any SDR allocations received after March 31, 2016.

41. The stock of foreign assets and liabilities of the CBJ shall be valued at program exchange rates. As of December 31, 2019, the stock of NIR amounted to USD 12,756.1 million (at program exchange rates).

42. **Adjustors:** The floors on the NIR of the CBJ will be adjusted upward (downward) by the extent to which the sum of foreign budgetary grants and foreign budgetary loans—excluding programmed guaranteed and non-guaranteed Eurobonds—received by the CBJ (as specified in Table 1) during the relevant period exceeds (falls short of) the levels specified in Table 1 of the MEFP within any calendar year. For the end-year floor on the NIR of the CBJ, the downward adjustment will be capped at 75 percent of the aforementioned shortfall. Given the uncertainty on the timing of the Eurobond issuances (assumed under the program in the second and fourth quarter of 2020 for $500 million each), the floor of the NIR for end-June 2020 will be adjusted downward by the programmed amount if delayed to the second half of 2020. The floors will also be adjusted upward by the amount that the outstanding balance of bilateral accounts with the Central Bank of Iraq is repaid, including both principal and interest payments.

E. Ceiling on the Accumulation of External Debt Service Arrears

43. External debt service arrears are defined as debt service payments (principal and interest) arising in respect of obligations to non-residents incurred directly or guaranteed by the central government or the CBJ, that have not been made at the time due, taking into account any contractual grace periods.

F. Floor on Social Spending by the Central Government

44. Social spending is defined as central government spending on: (i) non-wage components of the education and health sectors' current expenditure envelope; (ii) NAF's social protection programs; and (iii) the school feeding program.

G. Ceiling on Public Debt

45. Public debt is defined as the sum of: (i) central government direct debt (including off-budget project loans); (ii) central government guarantees extended to NEPCO, WAJ and other public entities; and (iii) the stock of the CBJ's liabilities to the IMF not lent on to the central government; minus the Social Security Corporation (SSC) holdings of government debt. For purpose of the program, the guarantee of a debt arises from any explicit legal obligation of the central government, or of any other agency acting on its behalf, to service such a debt in the event of nonpayment by the recipient (involving payments in cash or in kind), or from any implicit legal or contractual obligation to finance partially or in full any shortfall incurred by the debtor.

46. Adjustors: The ceiling on public debt will be adjusted:

47. Downward by the extent to which the cumulative disbursements under the EFF during the relevant period falls short of the levels specified in Table 1.

H. Ceiling on the Domestic Payment Arrears of NEPCO

48. Domestic payment arrears by NEPCO are defined as the belated settlement of a debtor's liabilities that are due under obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. Arrears to be covered include outstanding payments on wages and pensions; social security contributions; tax payments, and obligations to banks and other private companies and suppliers. Arrears exclude obligations to the central government arising from net transfers as specified in paragraph 12.

I. Ceiling on the Domestic Payment Arrears of WAJ, and Aqaba, Miyahuna, and Yarmouk Distribution Companies

49. Domestic payment arrears by WAJ, and Aqaba, Miyahuna, and Yarmouk Distribution Companies are defined as the belated settlement of a debtor's liabilities that are due under obligation (contract) for more than 60 days, or the creditor's refusal to receive a settlement duly offered by the debtor. Arrears to be covered include outstanding payments on wages and pensions;

social security contributions; tax payments, and obligations to banks and other private companies and suppliers. Arrears exclude obligations to the central government arising from net transfers as specified in paragraph 12.

J. Ceiling on the Net Domestic Assets of the CBJ

50. **Reserve money of the CBJ** is defined as the sum of: (i) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (ii) non-remunerated deposits of licensed banks with the CBJ in Jordanian dinars.

51. For program monitoring purposes, **the net domestic assets of the CBJ** are defined as the difference between the reserve money of the CBJ and its NIR as defined in Section D.

52. **Adjustors:** The ceilings on the NDA of the CBJ will be adjusted:

53. Upward (downward) by the extent to which the floors on the net international reserves of the CBJ are adjusted downward (upward).

54. Downward (upward) by the extent to which the CBJ decreases (increases) reserve requirements on Jordanian dinar deposits of the banking system. The adjustment will equal the change in the required reserve ratio multiplied by the stock of deposits with licensed banks at the start of the first month when the new reserve requirement ratio applies that are: (i) denominated in Jordanian dinars and; (ii) subject to reserve requirements.

DATA PROVISION

55. To permit the monitoring of developments under the program, the government will provide to the IMF (Division B of the Middle East and Central Asia Department) the information specified below.

56. Related to the ceiling on the primary deficit of the central government excluding grants and net transfers to NEPCO and the state-owned water sector:

57. The standard fiscal data tables as prepared by the ministry of finance covering detailed information on: revenue, including expanded information on revenues from oil derivatives, vehicles, and cigarettes, as agreed with IMF staff; expenditure; balances of government accounts with the banking system; foreign grants; domestic and external amortization and interest; net lending; debt swaps with official creditors; and monthly change in the stocks and the monthly value of stocks of uncashed checks and trust accounts.

58. The government financing information from the Treasury account, as agreed by both the Ministry of Finance and the Central Bank of Jordan, and any potential discrepancy between the government financial data and the monetary survey data (monthly).

59. Gross transfers to and from NEPCO and WAJ detailing the amounts paid or received in connection with debt transactions, transfers to cover losses, and any amount directed to repay any outstanding arrears of NEPCO or WAJ (monthly).

60. Related to central government arrears:

61. The stock of all pending bills of the central government that have not been paid for more than 60 days at the end of each quarter (quarterly), including those of the health insurance fund, to distribution electricity companies, and to the Jordan Petroleum Refinery Company.

62. The value and quantity of fuel products consumed by public sector entities from the Jordan Petroleum Refinery Company (monthly).

63. Related to the combined public sector deficit:

64. All the information specified in paragraph 28.

65. Full unaudited income statement and the stock of accounts payable and payments overdue less and more than 60 days (quarterly) in order to compute the PC on NEPCO net loss, prepared by NEPCO's accounting department on a quarterly basis.

66. Latest audited income statement signed by the auditor (usually available twice yearly with a six-month delay) with full explanation of any changes made to the unaudited version transmitted to the IMF, as soon as it becomes available to NEPCO's management.

67. Full unaudited income statement and the stock of accounts payable and payments overdue less and more than 60 days (quarterly), prepared by WAJ's Directorate of Finance and Accounting on a quarterly basis.

68. Full unaudited income statements and the stocks of accounts payable and payments overdue less and more than 60 days (quarterly), prepared by each of the water distribution companies (Aqaba , Miyahuna, and Yarmouk) and WAJ's Directorates of Finance on a quarterly basis.

69. Breakdown of overdue payments by major creditor, and all overdue payments vis-à-vis the central government (quarterly).

70. Monthly gas flows from Egypt in million cubic meters (quarterly).

71. Monthly Liquefied Natural Gas (LNG) flows in the LNG terminal in Aqaba in million British Thermal Units and their average price, and breakdown of these flows between local use and re-exports to Egypt (quarterly).

72. Related to the floor on NIR of the CBJ and ceiling on its NDA**:**

73. CBJ's foreign exchange reserves and preliminary data on dollarization (weekly).

74. Data on CD auctions (following each auction).

75. Monetary statistics (monthly).

76. The outstanding balance of bilateral accounts with the Central Bank of Iraq (monthly).

77. Related to the continuous performance criteria:

78. Details of official arrears accumulated on interest and principal payments to non-resident creditors. External arrears data will be provided using actual exchange rates and on a daily basis.

79. Related to the floors on public debt:

80. The fiscal tables on the central government's domestic and external debt (monthly).

81. Tables on the stock of debt guarantees extended to NEPCO, WAJ, and other public entities (monthly).

82. Data on short-term public debt (monthly).

83. Related to the floor on social spending by the central government:

84. A table on the amount of central government spending on each of the components of the social spending definition under the program (monthly).

85. Other economic data

86. Interest rates and consumer prices; and exports and imports; travel receipts and tourist arrivals; remittances; outstanding balance of non-resident purchases of domestic treasury bills and bonds; and GCC grants received by the CBJ and grants transferred by the CBJ to the Ministry of Finance (monthly).

87. Balance of payments (current and capital accounts) and external debt developments (quarterly).

88. List of short-, medium- and long-term public and publicly-guaranteed external loans contracted during each quarter, identifying, for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, interest rate arrangements, and the amortization profile (quarterly).

89. National accounts statistics (quarterly).

90. Weekly data and data on CD auctions should be sent to the Fund with a lag of no more than one week. Monthly and quarterly data should be sent within a period of no more than six weeks (for the monetary and fiscal variables), and within a period of no more than eight weeks for other data (three months for national accounts statistics and balance of payments and external debt statistics).

Data related to the continuous performance criterion should be sent within one week after the date when the arrear was incurred. Any revisions to previously reported data should be communicated to the staff in the context of the regular updates.

DEFINITIONS OF THE PRINCIPAL CONCEPTS AND VARIABLES

91. Any variable that is mentioned herein for the purpose of monitoring a performance criterion, and that is not explicitly defined, shall be defined in accordance with the Fund's standard statistical methodology, such as the Government Financial Statistics. For variables that are omitted from the TMU but that are relevant for program targets, the authorities of Jordan shall consult with the staff on the appropriate treatment based on the Fund's standard statistical methodology and program purposes.