

**EXECUTIVE
BOARD
MEETING**

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Supplement 2

March 20, 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—Supplementary Information**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, March 25, 2020
Publication:	Yes*
Questions:	Mr. Jarvis, MCD (ext. 35661) Mr. Serra, MCD (ext. 38966)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Arab Monetary Fund, Asian Infrastructure Investment Bank, Islamic Development Bank, World Trade Organization

***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.**



JORDAN

March 20, 2020

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

Prepared By

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This supplement provides an update to the Staff Report (EBS/20/19) based on developments that took place since the issuance of the report. The update does not alter the thrust of the staff appraisal.

1. The Jordanian authorities have met the prior actions committed under the new program. The 2020 general budget was passed in late January in line with program understandings; cabinet issued a 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 the authorities issued a tender, based on terms of reference prepared in consultation with Fund staff, for an international accounting, consulting or legal firm to undertake a comprehensive review of the most significant PPA.

2. Jordan has been materially affected by the COVID-19 outbreak. The authorities announced the first case of COVID-19 on March 2, and the number of cases has increased to 69 since then, without fatalities yet. The authorities moved expeditiously to implement a comprehensive set of measures to prevent, detect, treat, and contain the spread of the virus, including: (i) the full closure of air space and borders; (ii) the prohibition of movement of people across governorates and cities; (iii) mandatory quarantines; (iv) the imposition of a state of emergency and the activation of the Defense Law for its enforcement; (v) the suspension of public and private sector operations, except for critical sectors; and (vi) an extensive public communication and awareness campaign to limit the spread of COVID-19 and inform the public on examination and treatment facilities. More than 5,000 people are currently in quarantine.

3. The authorities have also announced a number of measures to mitigate the economic impact of the outbreak. The Central Bank of Jordan (CBJ) reduced its policy

interest rates by 150 basis points, following recent Fed actions. In addition, the CBJ injected liquidity into the system for about 1.8 percent of GDP through a cut in reserve requirements (from 7 to 5 percent), and it has allowed the rescheduling of retail loans to ease losses by businesses and help individual borrowers. The Ministry of Finance has established an emergency fund to cover emergency outlays and medical supplies and equipment for up to ½ percent of GDP. This makes use of the adjuster that was included in the program to accommodate such spending. Donations in the Private Sector and Civil Society Fund would allow additional health spending. The Ministry has exempted key medical supplies from sales taxes and has provided temporary cash-flow relief to companies by allowing delayed payments of sales taxes and customs duties within the year. To further support businesses and households affected by the outbreak, electricity bills are being allowed to be paid in installments; social security contributions have been curtailed for three months (a temporary contribution rate cut from 21.75 to 5.25 percent); and half of maternity insurance revenues in 2020 will be channeled to provide in-kind and material assistance to the elderly and sick.

4. The broader economic impact from the unfolding global crisis remains uncertain. In the near-term, growth and the balance of payments would be under pressure, due to the direct impact of the lockdown, reduced tourism and remittances receipts, shrinking external demand, and lower FDI and portfolio inflows. But they would be also supported by significantly lower oil prices, reduced outward travel, and the government's policy response. Therefore, it is difficult to quantify the magnitude of the broader economic impact at this stage, as it depends on the duration and depth of the outbreak both in Jordan and globally, as well as the full extent of policies in its response. The adjuster in the program for unbudgeted spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19 give the authorities some flexibility in managing the immediate response. However, as noted in the report, risks to the program could arise from adverse global and regional developments. While the thrust of the staff appraisal remains unchanged, staff will reassess the macroeconomic framework at the time of the first review and will adapt the program to the changed circumstances, if warranted.