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JORDAN

August 2021

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR AUGMENTATION OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JORDAN

In the context of the First Review Under, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 30, 2021, following discussions that ended on March 30, 2021, with the officials of Jordan on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 17, 2021.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director, Alternate Executive Director, and Senior Advisor** for Jordan.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes Second Review Under Jordan's Extended Arrangement and Request for Augmentation of Access to Address the Impact of COVID-19

FOR IMMEDIATE RELEASE

- Jordan has shown strong performance in implementing its reform program, which is geared to boosting jobs-rich and inclusive growth, while maintaining macroeconomic and financial stability.
- Program targets have been revised to allow adequate fiscal space to protect the recovery, expand the social safety net, and address high unemployment. The program will continue to accommodate additional spending on health and social protection.
- The IMF Executive Board has approved an increase in access under the EFF arrangement by about US$200 million. Stepped-up support from donors will be key to helping Jordan cope with the impact of the pandemic on the Jordanian people, while hosting 1.3 million Syrian refugees.

Washington, DC – July 1, 2021: On June 30, the Executive Board of the International Monetary Fund (IMF) completed the second review of Jordan's program supported by the Extended Fund Facility (EFF). The completion of the review will make SDR 144.1 million (about US$206 million) immediately available. This brings total IMF disbursements to Jordan since the start of 2020 to SDR 641.51 million (around US$900 million) including an SDR 291.55 million (about US$400 million) purchase in May 2020 under the Rapid Financing Instrument. The Executive Board also approved the authorities' request to increase access under the EFF arrangement by about US$200 million. Jordan's four-year EFF of SDR 926.37 million (about US$1.3 billion, equivalent to 270 percent of Jordan's quota in the IMF), was approved by the IMF's Board on March 25, 2020 (see Press Release No. 20/107).

The authorities' timely and effective policy response has helped protect jobs and the vulnerable, while preserving macroeconomic and financial stability. Still, COVID-19 has taken a toll on the economy, with unemployment rising to a record high and fiscal and external deficits widening. The Fund's financial support will help Jordan navigate these challenges, strengthen its balance of payments, and catalyze support from other development partners, which will be critical to enable Jordan deal with the economic and social impact of the COVID shock, while hosting some 1.3 million Syrian refugees.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"The impact of the COVID-19 pandemic has been attenuated by the authorities' timely and well-targeted measures to save lives, protect the most vulnerable and safeguard jobs. Nevertheless, successive COVID-19 waves and the sharp decline in tourism have taken a significant human and economic toll, with unemployment reaching record high levels, and the recovery delayed. Notwithstanding these challenges, the authorities have successfully maintained macroeconomic stability, notably by meeting all key fiscal and reserve targets, and made very strong progress on a large number of critical structural reforms. Moreover, Jordan's vaccination program, one of the first in the world to cover refugees, has recently accelerated.

"In the near term, the priority remains to manage the fallout from the pandemic. Thus, the revised fiscal targets for 2021 appropriately aim to accommodate higher spending on critical health, social protection, and job-supporting schemes. The authorities remain committed to implementing a gradual, growth-friendly, and equitable fiscal consolidation as the recovery becomes entrenched, in order to bolster public debt sustainability and ensure inclusive growth. To this end, they have advanced key reforms to close tax loopholes, broaden the tax base, and strengthen tax administration capacity. Continued high-quality reforms to enhance the efficiency and transparency of public finances will also be important.

"Monetary policy has been appropriately accommodative since the onset of the pandemic while supporting the peg. Moving forward, monetary policy needs to remain flexible and data driven, balancing the need to entrench the recovery and maintain monetary and financial stability. While the financial sector remains sound, continued vigilance is warranted given that it will likely take time for the full effects of the pandemic to be reflected in banks' asset quality.

"Continued progress on structural reforms remains essential to ensure a durable and inclusive recovery. Reforms in the electricity sector, where the authorities are working to address the high electricity costs for businesses, remains crucial for fostering job-rich growth and enhancing competitiveness. Other reforms should also focus on improving the business environment, reducing unemployment, particularly among women and youth, and strengthening governance. In this context, the recent review of the most significant power purchase agreement was an important step.

"The pandemic has significantly increased Jordan's external financing needs, underscoring the criticality of continued donor support, including to help shoulder the disproportionate burden Jordan has borne in hosting refugees. The authorities have demonstrated strong reform momentum and a commitment to fiscal transparency. These, together with continued implementation of reforms, as well as stepped up financial assistance from development partners, will help Jordan achieve the objectives of its program and build a stronger, more resilient, and inclusive economy."

INTERNATIONAL MONETARY FUND

JORDAN

June 17, 2021

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR AUGMENTATION OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context: Early success in containing the spread of COVID-19 has been challenged by two subsequent waves of the pandemic. Timely and effective fiscal and monetary policy responses helped contain the contraction in activity to 1.6 percent in 2020, shallower than the 3 percent expected at the first review. The authorities have also made significant efforts to protect jobs and the most vulnerable. Still, unemployment has surged to a record 25 percent in Q4 2020, with youth unemployment at 55 percent. The impact on fiscal and external balances has been significant, with public debt reaching 88 percent of GDP at end-2020. Nonetheless, despite the challenges from new virus variants and weaker tourism prospects, macroeconomic stability has been maintained, thanks to the authorities' proactive policy stance; and a moderate 2 percent growth rate is projected for 2021 (slightly below the 2.5 percent projected in the first review), with a near-full reopening expected in the summer. The new parliament extended a vote of confidence to the incoming government in January, and approved the 2021 budget—consistent with the program—in February.

Program implementation: All quantitative performance criteria (QPCs) were met, and most ITs have also been met. Progress on structural benchmarks (SBs) due for this review has been strong, including on streamlining the granting of tax incentives and closing tax loopholes. Regular information on COVID-related spending is being published, and an IMF Fiscal Transparency Evaluation was recently undertaken. The authorities have completed a comprehensive review of the most significant power purchase agreement (PPA); and adopted a three-year electricity tariff reform plan (prior actions). In light of the weaker outlook for 2021, staff supports the authorities' request for modification of the end-June 2021 QPCs to allow adequate space to protect the recovery, expand the social safety net, and address high unemployment.

Augmentation: The pandemic has significantly increased Jordan's external financing needs (by about US$1.1 billion in 2021–22), mainly due to weaker tourism and services receipts, underscoring the criticality of continued donor financing, including to support Syrian refugees. Along with additional multilateral, bilateral, and private market financing, the authorities have requested an augmentation of the program by about US$200 million (42 percent of quota), which staff supports to help meet program objectives. Completion of the review will make available about US$200 million in Fund financing, bringing total Fund disbursements since the start of 2020 to around US$900 million, including the US$400 million RFI purchase in May 2020.

Approved By
Thanos Arvanitis (MCD) and Delia Velculescu (SPR)

Discussions with the authorities were held remotely during March 8–30, 2021. The staff team comprised S. Ali Abbas (head), Serpil Bouza, Anastacia Guscina, Kareem Ismail (Resident Representative), Monica Petrescu, Rayah Al Farah (all MCD), Mehdi Benatiya Andaloussi (RES), Plamen Iossifov and Chris Redl (SPR). Jawed Sakhi and Jonathan Saalfield provided research assistance, Cecilia Pineda and Laila Azoor provided document management, and Sana Almunizel provided logistics support. The mission met with Prime Minister Bisher Al-Khasawneh, Minister of Finance Mohamad Al-Ississ, Governor of the Central Bank of Jordan Ziad Fariz, and other senior officials, as well as thinktanks, private sector representatives, and representatives of civil society. Sami Geadah, Maya Choueiri, and Fouad Al-Kohlany (all OED) participated in the discussions.

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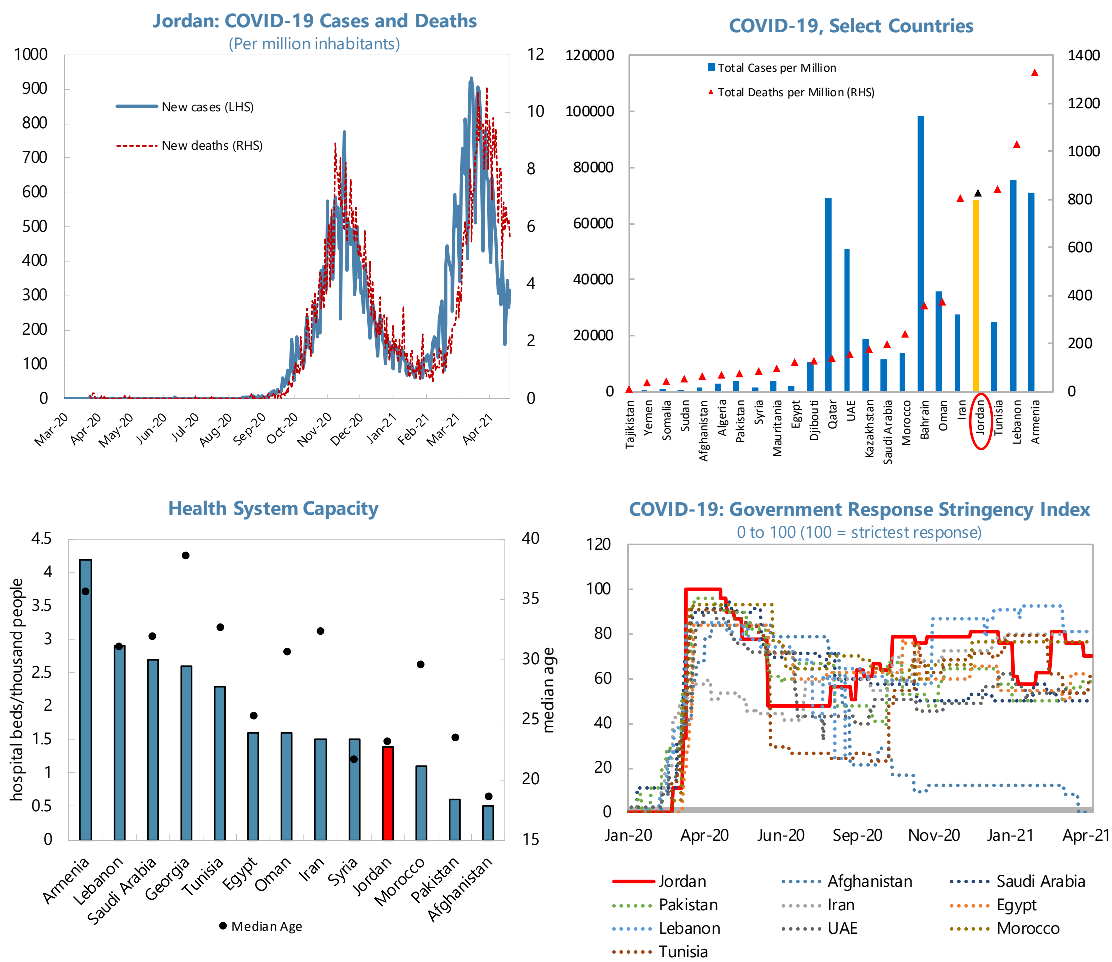
ANNEXES

APPENDIX

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. **Early success in containing the spread of COVID-19 has been challenged by two subsequent waves.** In contrast to the full lockdown earlier in 2020, the authorities opted for targeted containment measures to balance health and economic imperatives. Amplified by the propagation of new virus variants, cumulative infections and deaths had reached 70,630 and 910 per million by mid-June, respectively, making Jordan one of the most affected countries in the region. Despite a slow start, vaccination rates are accelerating, and the authorities have secured contracts for sizeable vaccine supplies (see Annex I).

COVID-19 Outbreak, Containment Response, and Mobility

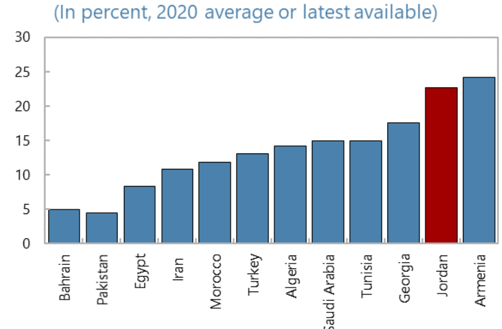


Sources: Max Roser, Hannah Ritchie, Esteban Ortiz-Ospina and Joe Hasell (2020) - "Coronavirus Pandemic (COVID-19)".
Retrieved from: 'https://ourworldindata.org/coronavirus';Thomas Hale, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2021).
Oxford COVID-19 Government Response Tracker, Blavatnik School of Government; and : Johns Hopkins University.
Note: latest observation is April 21, 2021.

2. The pandemic has taken a significant toll on the economy. Output contracted by 1.6 percent in 2020, with a sharp decline in March–June due to a second COVID wave. While fiscal and monetary policies helped contain the decline, job-rich sectors including retail, restaurants, and hotels, manufacturing, and construction, experienced sharp contractions. Growth in 2021 is projected at 2 percent, slightly weaker than expected at the first review, as the longer tail of the pandemic, slow start to vaccinations, weaker balance sheets, and delays in the return of tourism, weigh on domestic demand in the first half of the year. A return of tourism, ramped up vaccination efforts and increasing global demand, are expected to support recovery in the second half of the year. Growth is expected to reach around 3 percent in the medium-term, supported by structural reforms.[1] The economic contraction, and the pandemic-related rise in the fiscal and combined public deficits, have caused public debt to rise to 88 percent of GDP at end-2020, 9 ppts of GDP higher than expected at the approval of the extended arrangement. NPLs have remained at relatively low levels (5.5 percent in 2020), but corporate default risks have increased (Annex II).

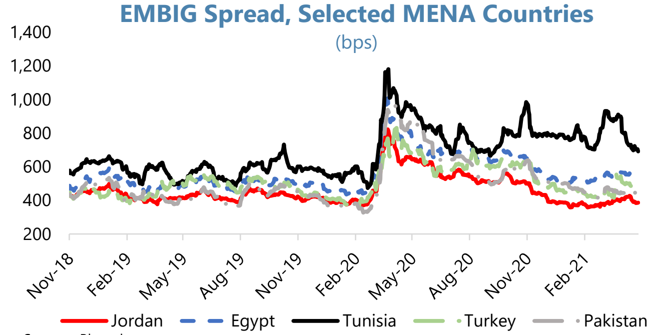
3. Unemployment rose to an all-time high at end-2020, while labor force participation remained depressed. The unemployment rate reached 25 percent in Q4 2020 (among the highest in the region), with only one third of the working-age population participating in the labor force. Youth and women were hit particularly hard: in Q4 2020, youth unemployment rose to an unprecedented 55 percent, while female unemployment reached a record high of 33 percent, even with female labor force participation stagnating at 14 percent.

Unemployment Rate
(In percent, 2020 average or latest available)



4. The current account deficit is estimated to have widened to around 8 percent of GDP in 2020, but international reserves have remained adequate. The 2020 current account (CA) is estimated to be 1 percent of GDP wider than at the time of the first review, due to shortfalls in tourism receipts in Q4 and a delay in GCC grant disbursements. Nonetheless, gross international reserves were around US$1 billion higher than anticipated at the first review, largely due to a temporary reduction in banks' net foreign assets. This year, the CA deficit is projected to further widen to 8.3 percent of GDP, as the weak trends in tourism seen in late 2020 persist, including due to slower vaccinations in Jordan and key trading partners, and remittances remain weak, while imports increase due to higher energy

EMBIG Spread, Selected MENA Countries
(bps)

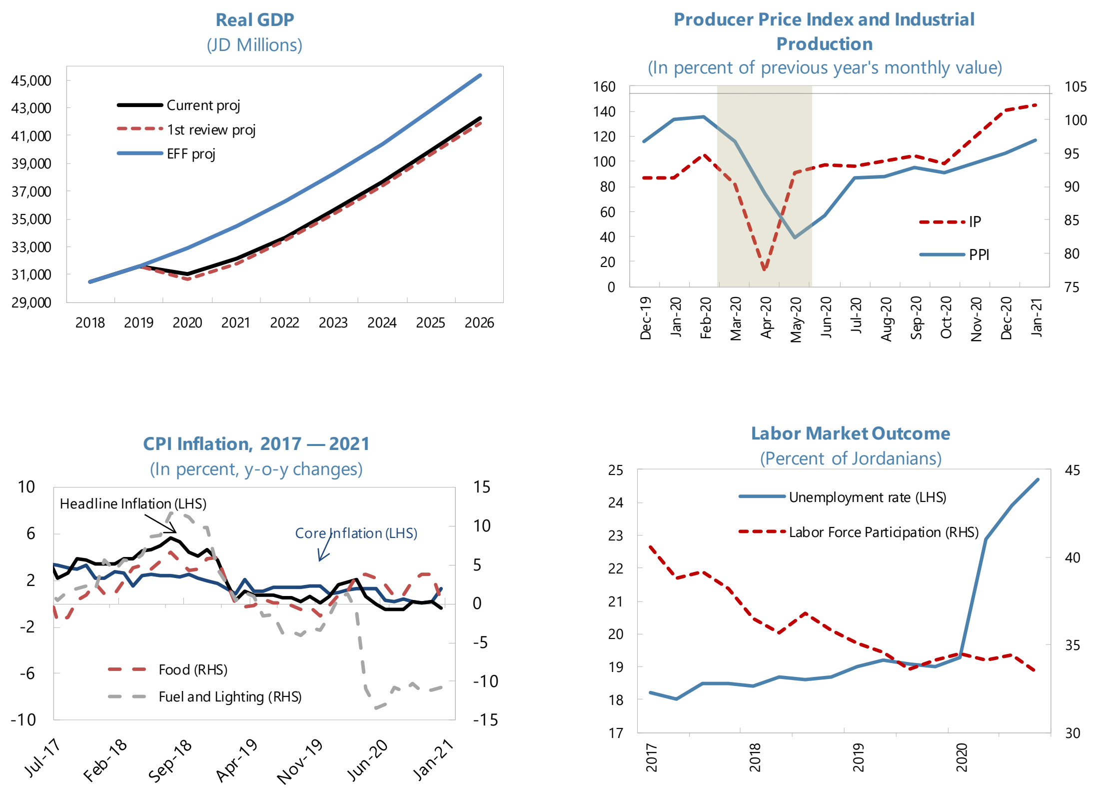


Sources: Bloomberg

[1] Headline inflation dropped to -0.3 y-o-y at end-2020 due to demand contraction and lower international fuel prices; it is expected to rebound to 2.5 percent y-o-y in 2021, driven by international fuel and food prices (with core inflation projected at 1.8 percent).

prices. Looking ahead, a full recovery in tourism is not expected before 2023. Jordan's EMBIG spread remains among the lowest in the region, affirming its continued market access.

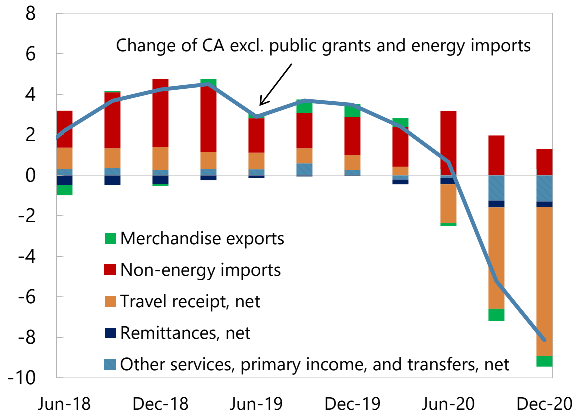
Real Sector Indicators



Sources: Department of Statistics and IMF staff calculations

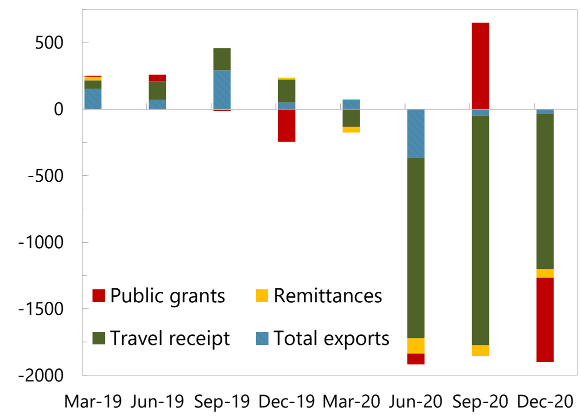
External Sector Developments

Jordan: Contributions to Change of Current Account Net of Public Grants and Energy Imports, 2018–20
(y-o-y change of 4-quarter moving sums, ppts of GDP)



Sources: Central Bank of Jordan; and IMF staff estimates.

Jordan: External Receipts, 2019–20
(y-o-y change, millions of USD)



Source: Central Bank of Jordan.

5. The authorities are taking additional targeted and temporary stimulus measures. To mitigate the impact of the recent COVID surges on the economy, on March 11, the Central Bank of Jordan (CBJ) expanded the size of its subsidized lending scheme for SMEs by an additional JD 200 million and extended to end-year 2021 the deferment on debt repayments by affected borrowers to banks (MEFP ¶12). On March 31, the government announced a fiscal-stimulus package to expand the social safety net, introduce employment programs targeting youth and women, support the hard-hit tourism sector, and accelerate clearance of arrears to the health and energy sectors (Annex III).

6. Downside risks to the outlook are considerable. The spread of new COVID variants, or vaccine shortages, could further delay the recovery. While the third wave has now subsided, should large-scale lockdowns become necessary to contain further waves, government revenues would take another hit and COVID-spending rise further, widening the budget deficit, amplifying financing needs, and raising the already-elevated debt. There is also a risk of contingent liability materializations from the broader public sector. If corporate defaults are much higher than expected, this could strain the financial sector. Social discontent, given the duration and impact of the pandemic, could complicate the rollout of reforms. Faster-than-anticipated normalization of monetary policy in the US could also raise emerging market sovereign spreads. The recent escalation in the Israeli-Palestinian conflict, if not contained, could have implications for the region and Jordan. These risks are mitigated by the authorities' strong commitment to the objectives of the extended arrangement, continued broad-based donor support, increasingly pro-poor policies, and a well-capitalized banking system.

POLICY DISCUSSIONS

7. The discussions focused on near-term policies to support the nascent recovery and lower the human cost of the pandemic. There was agreement that the weaker-than-expected outlook warrants some near-term policy relaxation and higher financing support to respond to the ongoing COVID shock and limit scarring. Accordingly, the program's fiscal targets are proposed to be adjusted to accommodate the requisite social spending and targeted policy support (Annex III). Looking ahead, the program aims to: (i) resume a gradual, growth-friendly and equitable fiscal consolidation as the recovery takes hold, while implementing an ambitious structural fiscal reform agenda to mobilize resources for critical spending and bolster public debt sustainability; (ii) ensure monetary and financial stability through proactive measures and oversight; (iii) gear the electricity and water sectors to financial sustainability, while accounting for the country's energy and water needs; and (iv) advance structural reforms to support jobs-rich and inclusive growth.

8. Progress on the SBs due for this review has been strong (MEFP, Table 2).

- The authorities met seven SBs: (i) submitted to Parliament an amended Investment Law that removed all articles related to tax incentives; (ii) signed digital track and trace commitments with three largest cigarette companies; (iii) approved legislation to introduce economic substance regulations for all SEZs; (iv) conducted a comprehensive review of trust accounts; (v) recruited 100 new tax administration officials at ISTD; (vi) submitted to parliament amendments to existing legislation to allow greater public access to basic financial disclosure information by public officials; and (vii) published the Financial Inclusion report and the Financial Inclusion Action plan for 2020-2021[2].

- Due to challenges associated with the unexpected third COVID wave, two SBs were not met on time, but have been implemented with delay: (i) the enactment of legislation to strengthen transfer pricing rules (June); and (ii) issuance of instructions aimed at increasing access to affordable childcare (February). Two additional SBs were not met and have been reset for July and September 2021, respectively: (i) introduction into the GST Law "place-of-taxation rules" in line with international best practices (submitted to Cabinet); and (ii) passing of legislation to bring ASEZA into a single Jordan tax administration and a single customs service (submitted to Parliament). Finally, the two electricity-sector SBs reset as prior actions (PAs) have been delivered: (i) comprehensive review of the most significant PPA; and (ii) adoption of a three-year electricity tariff reform plan with implementation commencing no later than March 2022.

A. Calibrating Public Finances for the Recovery Phase

9. The fiscal program is on track through end-March (Annex IV). At 5.7 percent of GDP, the 2020 central government primary deficit (excluding grants) was 0.3 percent of GDP below the program ceiling, as lower non-tax revenue and higher current spending were offset by a 0.5 percent of GDP capital underspend (text table). December QPCs and March ITs on the primary deficit and combined public deficits were met. The authorities also met December and March ITs on floor on social spending, ceiling on SSC net financing of the central government. They met end-December IT on public debt stock but missed this IT for March due to lower-than-expected purchases of government bonds by the SSC.

[2] https://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=445.

10. To ensure adequate space to support the weaker recovery, protect jobs and address record high unemployment, fiscal targets for 2021 are proposed to be eased, while preserving debt sustainability (Annex V, MEFP ¶10).

Fiscal Accounts in 2020—Expected Versus Actual

	1st Review		Actual		Difference	
	JD bil.	% GDP	JD bil.	% GDP	JD bil.	% GDP
Total revenue and grants	7.3	23.8	7.0	22.7	-0.3	-1.2
Tax revenue, *of which* :	4.9	16.0	5.0	16.0	0.1	0.0
Taxes on income and profits	1.1	3.6	1.1	3.6	0.0	-0.1
Sales taxes	3.5	11.3	3.5	11.4	0.1	0.0
Nontax revenue	1.3	4.4	1.3	4.1	-0.1	-0.2
Grants	1.1	3.5	0.8	2.5	-0.3	-0.9
Current expenditure, *of which:*	8.3	27.2	8.4	27.2	0.1	0.0
Wages and salaries	1.5	4.8	1.7	5.4	0.2	0.6
Transfers	2.5	8.3	2.4	7.8	-0.1	-0.5
Goods and services	0.3	1.1	0.4	1.3	0.1	0.2
Capital expenditure	1.0	3.1	0.8	2.7	-0.1	-0.5
Overall central government balance	-2.1	-6.7	-2.3	-7.3	-0.2	-0.6
Primary government balance, excl. grants and transfers to utilities	-1.8	-6.0	-1.8	-5.7	0.1	0.3
NEPCO operating balance	0.0	-0.2	-0.1	-0.3	0.0	-0.1
WAJ overall balance, excl. grants	-0.3	-1.1	-0.3	-1.0	0.0	0.1
Water companies overall balance	-0.1	-0.5	-0.1	-0.4	0.0	0.0
Combined public balance	-2.4	-7.7	-2.3	-7.4	0.1	0.4
Government debt (net of SSC holdings)	27.3	89.2	27.3	88.0	0.0	-1.2

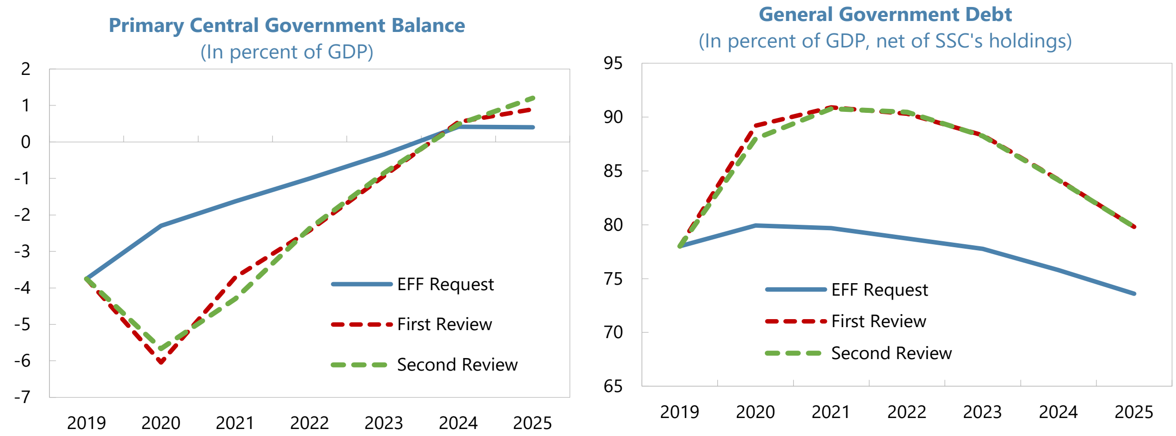
Source: IMF staff projections.

- A 0.6 ppt of GDP relaxation in the primary central government deficit (excluding grants) target will help accommodate higher spending on critical social protection and job-support schemes (see Annex III), as well as weaker revenues due to the growth markdown. The revised target of 4.3 percent of GDP still implies a 1.4 ppts. of GDP fiscal consolidation in 2021 (text chart, left panel). In addition, the ITs on the public debt stock are being adjusted to allow for an additional 0.3 percent of GDP clearance of domestic arrears (to provide liquidity to cash-strapped entities) and somewhat higher deficits.[3]

- The implications for public debt are well-contained, and the medium-term debt/GDP anchor of 80 percent by 2025 remains within reach (text chart, right panel). First, the proposed stimulus measures are temporary, and the clearance of additional arrears is one-off. Second, the 2020 debt ratio is 1.2 percent of GDP lower than was expected at the time of the first review, while grants (delayed from 2020) are projected to be higher by around 0.1 ppt of GDP. Third, while the SSC's net income declined by 15 percent in 2020, the decline is smaller than expected at the time of the first review, and the SSC can continue to invest in government bonds before the exposure cap becomes binding.

[3] The arrears clearance will be conducted via issuance of comfort letters, which enable the entities to which arrears are owed to borrow from commercial banks, with the government servicing the debt in subsequent years.

Revised Fiscal Adjustment and Debt Paths



Sources: MOF; and IMF staff projections.

11. Continued high-quality reforms to enhance the efficiency of public finances, while protecting inclusive growth, will underpin the medium-term consolidation effort:

- **Tax policy and administration.** Building on recent strong progress on the tax legislative agenda (MEFP ¶12), reforms should continue to focus on broadening the tax base. The authorities have committed to undertake, with IMF technical assistance (TA), a tax expenditure analysis to evaluate the costs and benefits associated with existing tax incentives. The authorities will develop an IMF-supported plan, encompassing both tax policy and administration, to implement recent and ongoing legislative tax reforms by end-November 2021 *(new proposed SB)*. On tax administration, efforts should focus on bringing ISTD's core tax functions to international good practice standards and, more generally, strengthening the institutional and technical capacity of the ISTD to tackle tax avoidance and evasion.

- **Social protection.** The authorities are working to produce, by early 2022, an action plan to improve the adequacy and efficiency of the social safety net. They are improving the coverage and targeting of the National Aid Fund (NAF)'s cash transfer programs, and bringing the National Unified Registry (NUR) online as the single gateway for all Jordanians seeking social assistance. They are also increasing budgetary allocations to NAF using the space provided by the 2021 primary deficit target relaxation. Annex III provides details on how the program seeks to protect the most vulnerable.

- **Public sector wage bill and efficiency.** To contain public wage bill (MEFP ¶12, (iii)), the authorities have committed to complete a detailed study of the drivers of the public sector wage bill with recommendations on enhancing civil service efficiency and better aligning remuneration with that of market comparators *(new proposed end-October-2021 SB)*.

- **Arrears clearance.** The authorities are determined to clear central government arrears to the health and energy sectors (1.3 percent of GDP) and avoid future incurrence. To that end, they will: (i) issue a circular setting out a timetable for elimination of the end-2020 stock of arrears during 2021–22; and (ii) issue a decision committing all central government entities to new procurement procedures from the Jordan Petroleum Refinery Company *(new proposed end-July 2021 SB)*.

- **Public financial management.** To eliminate off-budget expenditures, the authorities are strengthening top-down budgeting, working on improving the quality of fiscal projections, have issued a cabinet decision to prohibit the use of treasury advances to pay for unbudgeted expenditures, and will issue guidance (by end-June 2021) to the main trust account holders to submit to MOF monthly revenues, expenditures, and financial transactions information. Separately, Parliament has passed amendments to the 2017 Organic Budget Law, in line with IMF staff recommendations.

- **Public procurement.** The authorities have issued all regulations needed to support implementation of the Unified Public Procurement Bylaw. To accelerate the rollout of the eGovernment Procurement system, JONEPS, the authorities have committed to: (i) amend the above By-law and regulations after a year of implementation to clarify, inter alia, issues such as conditions for allowing direct purchasing (e.g., COVID-related emergency spending) and the membership, structure, and remuneration of committees relevant to the operation and rollout of JONEPS *(new proposed end-December 2021 SB);* and (ii) ensure adequate staffing of these committees and units; and (iii) expand JONEPS coverage to all ministries and municipalities by end-December 2022.

- **Investment quality.** To fully implement the new Public-Private Partnerships (PPP) law, the authorities have issued Cabinet decisions to clarify that the law is binding for all new projects for which the procurement process had not started by April 2020 and entrusted the Fiscal Commitments and Contingent Liabilities (FCCL) unit at MOF with the authority to monitor and evaluate, and solicit information from all government entities on, all established and new PPPs, including in the energy and water sectors. To build on progress in this area, the authorities have committed to:

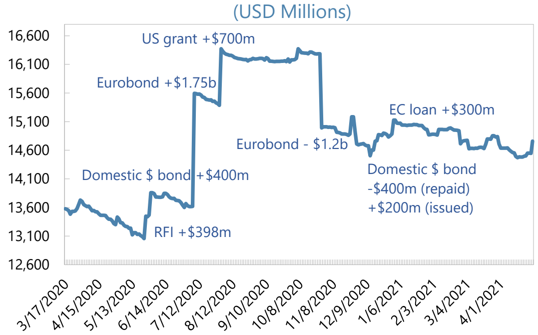
    - Adequately staff the PPP Unit at the Prime Minister's office, the FCCL unit at the MOF and the Public Investment Management (PIM) Unit at MoPIC.
    - Issue secondary legislation that will require the adoption of PIM appraisal standards for all new public investment projects (PIPs) and PPP investment projects to ensure their proper management and selection *(new proposed end-Oct 2021 SB)*.
    - By end-2021, launch the National Registry of Investment Projects (NRIP) comprising the PIP Databank and the PPP Databank.

- **Fiscal policy and debt management capacity.** To strengthen MOF's capacity to do medium-term forecasts, undertake distributional analyses of fiscal measures, monitor public balance sheet risk, and carry out debt management and debt sustainability analyses, the authorities have committed to recruit four new division heads and four staff for a new macro-fiscal unit at MOF by end-October 2021 *(new proposed end-October 2021 SB)*. Separately, with MCM TA, MOF will boost its debt management capacity, with a view to lower debt service costs, at an acceptable level of risk, through liability management operations. The recently undertaken fiscal transparency evaluation (FTE) will help identify reform priorities in improving transparency, fiscal policy formulation, and fiscal risk management.

B. Ensuring Monetary Stability and Financial Sector Resilience

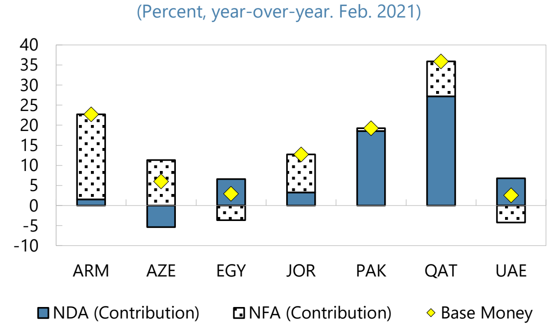
12. The CBJ has maintained financial stability, including by preserving international reserve buffers that underpin the peg. Jordan's peg to the US dollar has continued to serve as an effective anchor for macroeconomic stability and market confidence. FX market pressures observed in the immediate aftermath of the COVID-19 outbreak, which reflected an increase in precautionary cash holdings, fully subsided in Q4 2020, including as banks retrenched their net foreign assets. Accordingly, reserves got replenished due to significant official inflows, the issuance of FX-denominated bonds locally, and the June 2020 Eurobond. By Q1 2021, the CBJ became a net foreign-exchange buyer. Consistent with these developments, the December PC and March IT on NIR were met by wide margins. The revised NIR path for 2021–22 reflects both the higher-than-expected stock of NIR to date, but also larger balance of payment (BoP) needs—in light of the markdown to tourism receipts—while continuing to ensure reserves stay above 100 percent of the Fund's Assessment of Reserve Adequacy (ARA) metric (the authorities' operational benchmark for reserve adequacy).

FX Reserves
(USD Millions)



13. Given the weaker outlook and still high uncertainty, monetary policy should remain flexible and data driven, continuing to support the peg while safeguarding the recovery. The CBJ's policy rate cuts and liquidity injections into the banking sector constituted an effective response to the acute phase of the pandemic, lowering interbank rates, and propelling private sector credit growth to above 6 percent in 2020 (and through early 2021) despite the recession. By end 2020, the easing of bank liquidity prompted the CBJ to gradually start unwinding its earlier reverse repos, a trend that continued into early May[4] (Figure 4). Accordingly, the ITs on net domestic assets (NDA) of the CBJ for December and March have been met. As the recovery takes hold, the CBJ will continue to gradually unwind

Base Money Growth & Contributions from NFA and NDA
(Percent, year-over-year. Feb. 2021)



Sources: IMF Integrated Monetary Database and IMF staff calculations.

[4] This trend reversed in May and the stock of repos increased slightly because of seasonal factors, mainly due to higher consumer spending during the month of Ramadan.

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

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

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

Bank Soundness Indicators

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

Source: Central Bank of Jordan.

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

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

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

17. The authorities have requested a Financial Sector Assessment Program (FSAP) update in 2022 to take stock of the many changes in the financial sector since the last update in 2008 (MEFP ¶22).

C. Gearing the Electricity and Water Sectors to Financial Sustainability

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

19. Containing NEPCO's losses remains an urgent priority (MEFP ¶24). The authorities remain committed to measures to (i) boost demand domestically and internationally (through export agreements), (ii) reduce costs, through continuing to optimize gas imports,[8] retire old power plants, and implement the debt optimization plan, and (iii) explore options to optimize costs related to existing and future PPAs (on December 19, 2020, the government submitted arbitration requests to the Paris International Chamber of Commerce to seek declaratory judgements regarding the Attarat contracts).[9]

20. The authorities have adopted a three-year end-user electricity tariff reform plan, with front-loaded implementation set to begin early 2022 (PA, see MEFP ¶26–27). The plan seeks to address the high electricity costs for the business sector resulting from substantial cross-subsidization of household consumption, which have been a long-standing concern for private sector growth, employment, and competitiveness. Specifically, tariff reductions are being considered, from the first year, for energy-intensive sectors facing the highest tariff rates and with potential to generate high value added and high-productivity jobs, including in the commercial, health, and industrial sectors; additional sectors will be added in subsequent years. To make the plan revenue neutral, which is important to contain NEPCO losses, the plan reduces, in a progressive manner, the electricity subsidies accruing to households with capacity to pay, through (i) a simplified tariff structure and discount system which attenuates distortions while protecting vulnerable and low income groups, and (ii) excluding several categories of better-off households from subsidies, either in part or in full (see Annex VI). Moreover, all households will need to apply for the subsidy, and the information gathered during this application process will allow the authorities—with

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

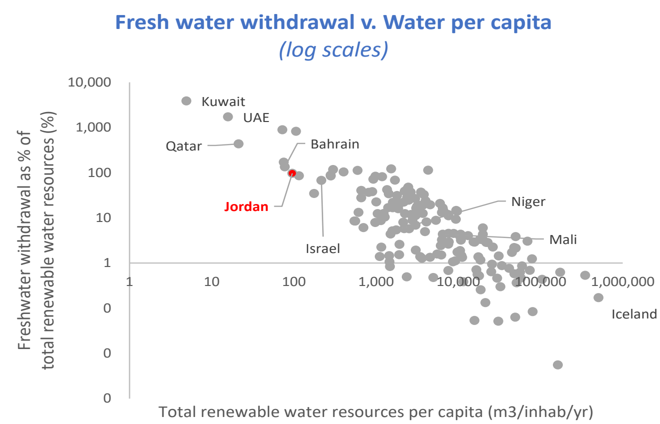
[8] Staff's projections incorporate the impact of prospective electricity exports, as well as the optimization of energy inputs – notably a decline in reliance on LNG (LNG contracts expired at end-2020 and were replaced by long-term piped-gas supply contracts from Israel and Egypt, the prices of which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

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

technical support, including from the Fund—to refine subsidy eligibility criteria and improve the calibration of the discount system with a view to further enhancing the progressivity of the system, both at the onset of implementation and in the outer years. Rollout of the reform—for both households and businesses—is expected to start no later than end-March 2022 (*proposed SB*). Securing donor assistance to support refugees potentially affected by the reform and allocating adequate resources to process subsidy applications and appeals would be important for ensuring full protection of vulnerable groups post-implementation.

21. The COVID-19 shock has exacerbated challenges in the water sector, underscoring the importance of stock-taking and reforms (MEFP ¶28).

- Losses in the water sector have mounted in the wake of the pandemic: in 2020, WAJ and water distribution companies' budget deficits rose to 1 and 0.4 percent of GDP, respectively, on account of more frequent deliveries, while bill collection rates declined. Since the first review, WAJ repaid part of its arrears to PPPs with donor assistance, but continued to accumulate new arrears (JD 23 million over 2020); distribution companies also incurred new electricity arrears. Thus, the end-December IT on the stock of water sector arrears was not met.



Source: Aquastat (FAO)

- Higher demand during lockdowns, and an unusually dry 2021, have further fueled concerns about water scarcity, which had already aggravated in recent years due to faster-than-expected population growth (notably, due to the large influx of refugees) and climate change.[10] The authorities are considering large-scale projects to secure a sustainable water supply; and are committed to routing these through the new PPP framework, to ensure best value for money.[11]

The authorities are preparing a Financial Sustainability Roadmap for the water sector, to be completed by end-September 2021, with assistance from development partners. The roadmap will provide a comprehensive analysis of the challenges the sector faces and propose concrete reforms to durably improve the sector's financial position.

[10] Jordan has one of the lowest levels of per capita renewable water resources in the world (at 96 m^3 per year), well below the internationally recognized water scarcity level (500 m^3 per year), and currently retrieves 96 percent of its renewable water sources, one of the highest rates in the world. Water losses and water theft in Jordan are also well above the average for the region. Lower rainfall and higher temperatures in recent years have aggravated water scarcity challenges.

[11] While water sector deficits of 1–1.5 percent of GDP in the coming years are already factored into the baseline of the IMF's public debt sustainability analysis, the costs of new projects aimed at boosting water supply are not factored in.

D. Reforms to Entrench Jobs-Rich and Inclusive Growth

22. Addressing structural impediments to inclusive and jobs-rich growth have become even more imperative post-COVID. Reforms should focus on:

- **Tackling labor market distortions** (MEFP ¶29):
  - *Youth unemployment:* The authorities are strengthening support for apprenticeships and vocational training and considering extending the lower social security contribution rates for startups (which hire young workers) to all sectors.
  - *Female labor participation:* The authorities have issued instructions clarifying the modalities through which firms are required to provide in-house or commercial daycare options (end-December 2020 SB) and, will aim to simplify licensing process for nurseries by December 2021. In addition, they are working on a new Labor law to remove existing sectoral restrictions for women and address harassment, as well as on implementing the Code of Ethics and Professional Conduct for the transport sector and on launching the Amman Bus Rapid Transit system, both key to facilitate affordable and safe transportation, especially for women.
  - *Informality:* The government has signed agreements with the trade unions in April to facilitate the rollout of a new type of work permit for Syrian refugees that allows them to work in all sectors open to non-Jordanians without being tied to a specific employer. In addition, the authorities plan to simplify work permit procedures for non-Jordanian skilled labor by end-September 2021.

- **Enhancing the business climate** (MEFP ¶30). Key reforms include reducing the costs of starting and operating businesses, eliminating red tape, and strengthening investor protection. In particular, the authorities are (a) simplifying licensing procedures for businesses as part of the "Investor's Journey" program; (b) implementing an Advanced Ruling mechanism to streamline imports; (c) operationalizing the new insolvency framework by training insolvency practitioners and judges; and (d) strengthening the competition regulatory framework with the assistance of development partners.

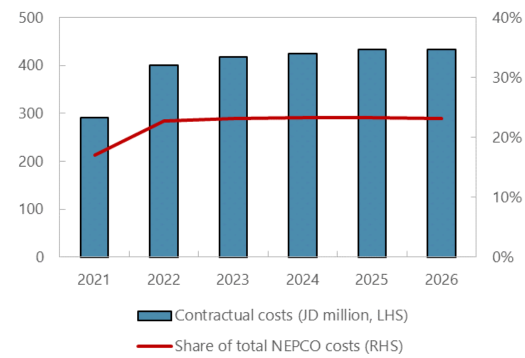
- **Increasing financial inclusion** (MEFP ¶21). Since the 2017 launch of National Financial Inclusion Strategy (NFIS), CBJ has greatly enhanced financial inclusion: at end-2020, the share of adults owning financial accounts reached 50 percent, with the gender gap reduced to 29 percent (overperforming the respective targets of 41.5 percent and 35 percent). Following the recent publication of the Financial Inclusion Report and Action Plan for 2020–2021, the CBJ is developing a new medium-term strategy to further bolster financial inclusion.

- **Strengthening governance:**

  - *COVID-related spending*. In line with their May 2020 RFI commitments, the authorities are publishing online, procurement data, including contracts and information on beneficial ownership reported by awarded entities, for COVID-19 emergency response spending. They have undertaken an ex-post audit of all spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19 and corresponding inflows (MEFP ¶31) and will publish the results (June 2021 SB proposed to be reset to end-August to give more time to the independent audit firm to complete the work).

  - *Review of the most significant PPA*. The authorities have met the prior action on the completion of the review of the oil shale PPA. The review, which was conducted by an internationally reputable law firm, will inform staff's discussions with the authorities on the scope for improving Jordan's existing framework in the areas of procurement and PFM.

Costs Related to Oil-shale PPA



  - *Anti-corruption framework*. The authorities are working to strengthen the capacity of the Integrity and Anti-Corruption Commission, including to implement the amendments to the Illicit Gains Law currently tabled in parliament.

- **Improving national account statistics to better inform policies.** The authorities will undertake a comprehensive review of the primary statistics obtained from the industry surveys used to compile annual national accounts, and ensure intertemporal consistency and accuracy of the GDP statistics (MEFP ¶32).[12]

[12] The volatility in the primary statistics derived from industry surveys makes it difficult for the DOS to easily incorporate them into the GDP processing system and thereby impacts the quality and timeliness of annual GDP.

PROGRAM MODALITIES

23. The authorities have requested adjustments to the program's quantitative and structural conditionality in light of the COVID-shock. The attached Letter of Intent and MEFP describe the authorities' progress in implementing their economic program and set out their commitments. It also proposes modification of QPCs for June 2021, and of ITs through June 2022 (MEFP Table 1) and proposed modifications to structural conditionality (MEFP Table 2). They have met the PAs on completion of a comprehensive review of the most significant PPA and on adoption of a three-year electricity tariff reform plan.

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

	2020	2021	2022	2023	2024
	Prel.	Proj 1/		Proj	
Financing needs	**1,805**	**2,374**	**1,415**	**1,032**	**101**
Official financing	**1,805**	**2,374**	**1,415**	**1,032**	**101**
IMF 2/	690	556	400	201	101
Identified official public external financ	1,115	1,818	1,014	831	0
World Bank 3/	403	511	354	219	0
European Union	298	548	0	0	0
Japan	200	100	100	100	0
Others 4/	214	658	561	513	0
Memorandum item					
Eurobond issuance	1,750	500	1,000	0	0

Source: IMF staff projections.
1/ 12 months from First EFF review.
2/ In 2020, purchases under both the RFI and EFF.
3/ Does not include new lending pipeline that can reach USD 465 million.
4/ Financial support from Canada, France, Germany, Italy, GCC, EBRD, AIIB.

24. External financing needs remain elevated. Although there are efforts for multilateral and official bilateral disbursements to catch up with commitments in 2021, financing requirements are expected to increase by US$1.1 billion over 2021–22 due to the weaker tourism outlook. However, firm commitments of financing assurances are in place for the 12 months following the second review of the extended arrangement, with good prospects thereafter:

- **External financing from development partners.** Shortfalls vis-à-vis original pledges[13] in 2020 are expected to be offset by higher (delayed) disbursements in 2021–22, as well as new sources of financing, including stepped up grant support from the EU and the U.S.; and new financing commitments by Jordan's development partners, notably the expected approval this year and disbursement of US$540 million over 2022–25 in new World Bank lending projects.

Change in External Financing Gap Relative to First Review
(In millions of U.S. dollars)

	2021-22
External financing gap	**352**
(+) Change in Total Financing Needs	361
(+) Change in Gross Financing Requirements	1,140
Current account deficit (excl. grants)	1,056
(-) Change in Gross Financing Sources	303
FDI, net	45
Public grants	121
Public sector borrowing (xcl. official budget support)	156
Issuance of sovereign bonds (current plans)	500
Private capital flows, net, *of which*	-518
Commercial banks' NFA	-600
(+) Change in Reserves (+ = increase)	-477
(-) Change in Errors and omissions	0
(-) Other changes in official external financing (valuation effects)	9
Sources of financing	**352**
(+) Identified new sources of financing	**352**
Official budget support	142
IMF EFF augmentation	210
(+) Unidentified external financing	**0**

[13] Budget grants in 2020 came in lower than projected at the time of the first review. This was driven by COVID-19 related delays in GCC support and is thus expected to be temporary (projections from 2021 onward are above the level of the first review).

- **Issuance of non-guaranteed Eurobonds.** Jordan has market access, as evidenced by last year's Eurobond placement, and financial market conditions remain favorable. The authorities plan a Eurobond issuance of US$500 million this year, to complement concessional official financing, which is the preferred financing source given Jordan's elevated debt burden.

- **An augmentation of access under the extended arrangement** by around US$200 million (SDR 144.102 million or 42 percent of quota) to help meet the higher financing need; and catalyze scaled up donor support. The augmentation will bring total access under the extended arrangement to` SDR 1,070.472 million or 312 percent of quota (about US$1.5 billion), still within normal access limits. The augmentation is envisioned to be phased over 2021–22, covering about one-fifth of the financing gap (Table 5). Purchases in 2021–22 will be on-lent to the government and used for budget support, as part of the BoP needs that arise for external debt service payments.

25. Capacity to repay the Fund remains adequate. Despite the COVID-19-induced deterioration in indicators of Fund credit, they remain below the peak values under past Fund supported programs. Fund credit outstanding will peak at 4 percent of GDP in 2023, 11.6 percent of exports of goods and services, and 12.9 percent of gross usable reserves. Extended arrangement repurchases and charges peak at 1.1 percent of exports of goods and services and 1.2 percent of gross usable reserves in 2023. A prolonged pandemic, sustained higher oil prices, or aggravation in geopolitical tensions pose downside risks. While debt sustainability risks have increased, development partners' ongoing commitment to Jordan and strong market access constitute important safeguards.

26. Safeguards assessment: The CBJ is progressing with implementation of the 2020 safeguards recommendations. A unified investment policy in line with staff's advice to strengthen governance of foreign reserves was approved in December, and reporting to the Audit Committee was revamped to enable stronger oversight of audit and control processes. Work is on track for the CBJ Board to approve guidelines implementing the Emergency Liquidity Assistance framework (end-June 2021 SB), and the CBJ is reexamining the extent to which certain legal provisions impede compliance with IFRS, and will benchmark against practices in other central banks with similar statutory requirements. The resulting recommendations will be submitted to the CBJ Board by end-August 2021 (MEFP, ¶18).

STAFF APPRAISAL

27. The Jordanian authorities' swift and targeted policy responses to the pandemic have helped buffer its impact, while preserving macroeconomic stability. An accommodative monetary policy stance, provision of liquidity support to banks, and subsidized lending to SMEs have kept credit flowing, while maintaining adequate reserve buffers to support the peg. Fiscal policy has significantly expanded the social safety net to protect the most vulnerable and support job retention and creation, notably among youth. Strong revenue mobilization efforts, measures to enhance efficiency of spending, and the passage of a responsible 2021 budget have helped to safeguard debt sustainability and continued market access.

28. However, Jordan faces new challenges given the persistence of the pandemic. Two successive COVID waves since August have left Jordan as one of most affected countries in the region, while considerable uncertainty remains around evolving new strains and exit from the pandemic. Vaccines offer hope, but face supply shortages. Unemployment is high; private sector balance sheets are weaker; and elevated public debt (at 88 percent of GDP) limits fiscal space. Weaker tourism prospects will increase the current account deficit. These factors will weigh on future demand and outlook.

29. Despite these challenges, the authorities have shown strong commitment to the program. All QPCs and most ITs have been met. Initial COVID-related delays on structural conditionality have been largely compensated in this review. The authorities have advanced several legislative reforms to tackle key tax loopholes, leveraging extensive Fund TA. They have adopted a three-year electricity tariff reform plan—with implementation to start no later than March 2022—which reduces electricity costs for key business sectors and better targets household subsidies. And by completing a review of the oil shale PPA, strengthening the Illicit Gains Law, publishing details on COVID-related spending, and undertaking a fiscal transparency evaluation, they have affirmed their commitment to enhancing governance and transparency.

30. Looking ahead, fiscal policy should continue to balance the need to support the recovery in the near term and reduce debt sustainability risks. Staff supports the proposed temporary relaxation of 2021 deficit targets to allow for greater social protection and jobs-support spending. At the same time, high-quality tax and expenditure reforms need to continue to arrest and durably reverse the recent sharp rise in public debt/GDP. Firm implementation of the recent tax legislative changes and robust efforts to strengthen tax administration and fight tax evasion will help broaden the tax base and underpin a more equitable adjustment where the better-off pay their fair share. On the expenditure side, examining the large public wage bill to improve its efficiency, further strengthening the social safety net, fully implementing the PPP law, improving PFM and procurement practices, and stemming the flow of arrears will strengthen accountability. An active outreach to all stakeholders would help build public buy-in for the reforms. The authorities also need to proactively address pressures in the broader public sector and ensure that government support is tied to credible restructuring plans. While risks have increased, Jordan's public debt is sustainable with continued strong policy implementation in the above areas.

31. Monetary policy should remain data-driven, while safeguarding the peg and financial stability. The CBJ will need to calibrate the monetary stance to the pace and strength of the recovery and remain alert to emerging BoP pressures, with reserve adequacy critical to credibly supporting the peg. Banks are adequately capitalized, including due to the CBJ's helpful prudential actions. But the full impact of the crisis on asset quality is yet to unfold. Thus, continued vigilance and agility in supervision are needed to ensure banks can continue to support good-quality credit creation, including in the event of a more protracted recovery.

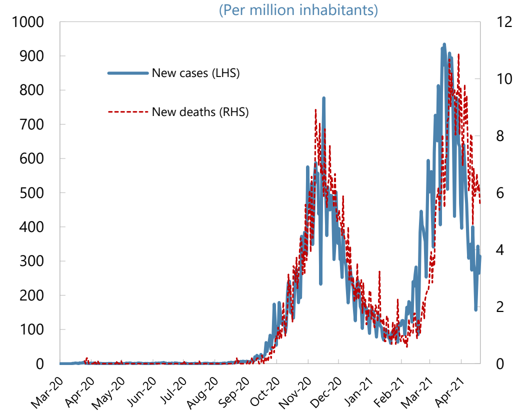
32. The authorities are committed to removing key obstacles to durable, jobs-rich, and inclusive growth. The crisis has further exacerbated the problems of youth unemployment, low female labor participation, and high informality, and decisive actions are needed to remove key impediments. Strengthening competition, streamlining licensing requirements, and reducing the economic footprint of the state will help promote entrepreneurship and private sector job creation. Building on recent governance reforms, further efforts are needed to strengthen the anti-corruption framework. Finally, addressing water sector challenges, especially water scarcity, in a financially responsible manner, will be critical; the Financial Sustainability Roadmap will afford a timely opportunity for the authorities to articulate a coherent set of reforms in this area.

33. Staff supports the authorities' request for the completion of the Second Review under the extended arrangement, as well as modification of targets and augmentation. Based on the observed strong program performance, and given the weaker recovery projected for 2021–22, staff supports the authorities' request for modification of targets. Staff also supports the request to augment the extended arrangement by US$200 million to help close near-term financing gaps along with support from development partners. Robust and timely development partner support remains critical for the success of Jordan's reform program and to help Jordan continue to protect lives and livelihoods through the crisis, while hosting a large number of refugees. Greater vaccine supplies to advance Jordan's open vaccination program—which, importantly, provides access to citizens and refugees alike—will also facilitate a swifter exit from the pandemic.

Figure 1. Jordan: Real Sector Developments

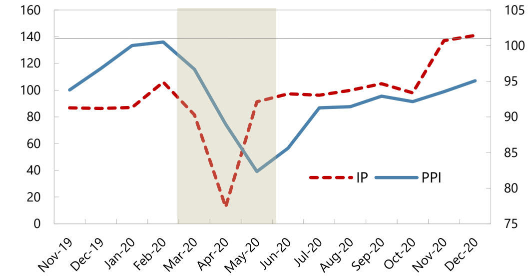
Strong second and third waves amplified the human and economic toll of the pandemic.

Jordan: COVID-19 Cases and Deaths
(Per million inhabitants)



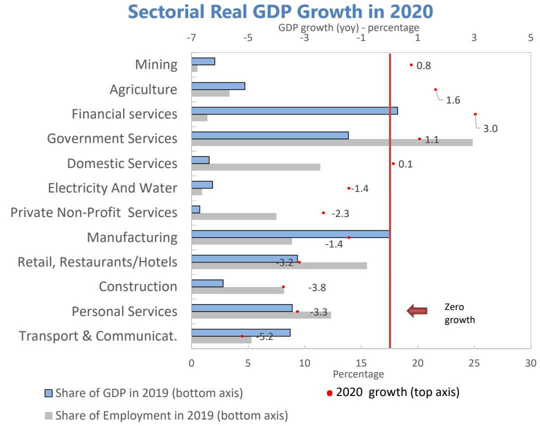
Lockdown measures severely affected production in the first half of 2020...

Producer Price Index and Industrial Production
(In percent of previous year's monthly value)



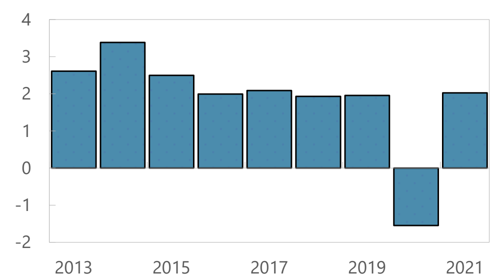
... while the drag on business and consumer sentiment affected employment-rich sectors.

Sectorial Real GDP Growth in 2020



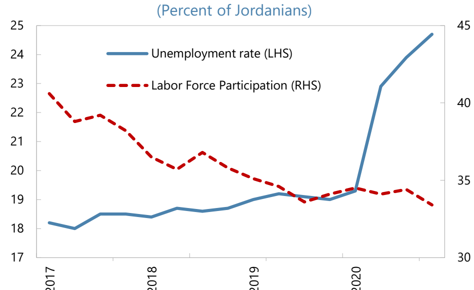
Output contracted by 1.6 percent in 2020 and is expected to recover by 2 percent this year.

Real GDP Growth
(In percent, y-o-y change)



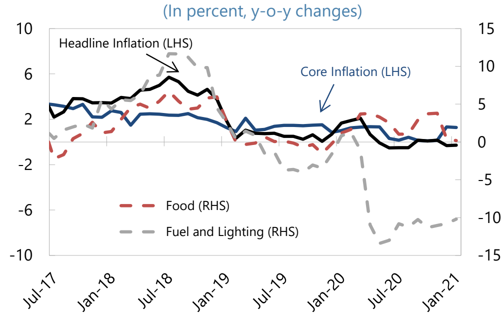
Unemployment has reached all-time highs and labor force participation remains depressed...

Jordan: Labor Market Outcome
(Percent of Jordanians)



...while the pandemic's local and global effects placed downward pressure on inflation in 2020 (a trend expected to be reversed in 2021).

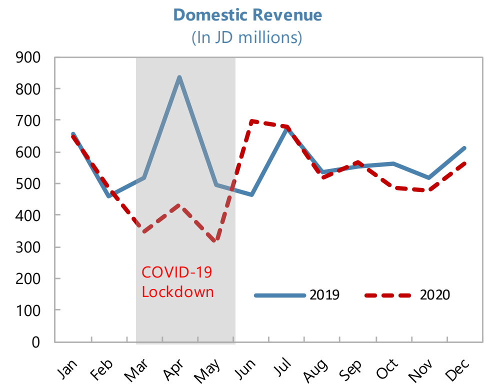
Jordan: CPI Inflation, 2017 - 2021
(In percent, y-o-y changes)



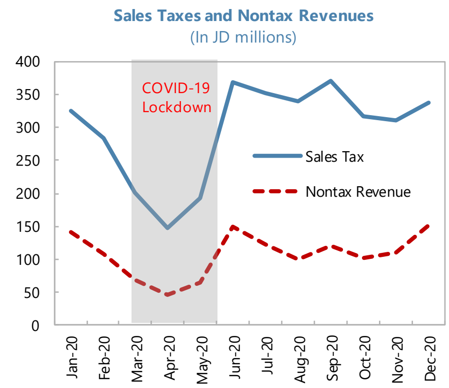
Sources: National authorities; Johns Hopkins University; and IMF staff calculations.

Figure 2. Jordan: Fiscal Developments

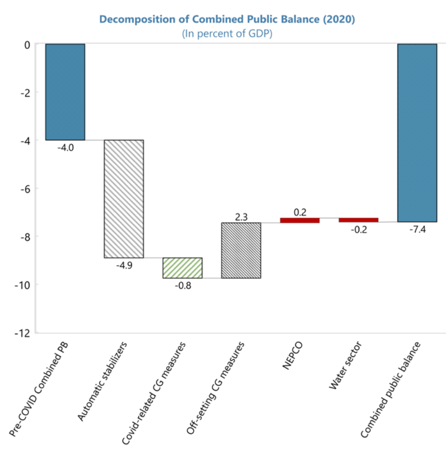
COVID-19 containment measures resulted in a sharp decline in domestic revenues....



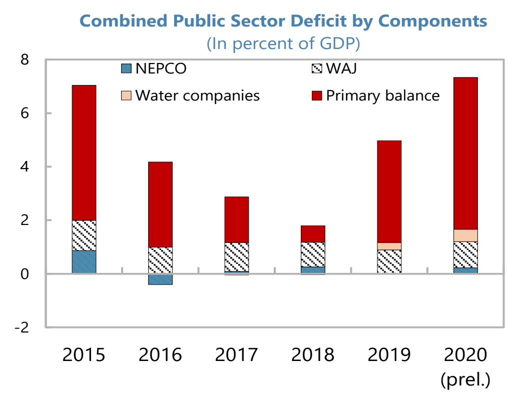
...with sales and non-tax revenues taking the biggest hit.



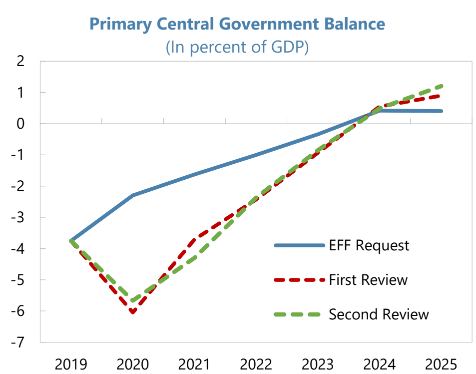
Despite cuts to nonpriority capital and current spending, the central government fiscal balance deteriorated...



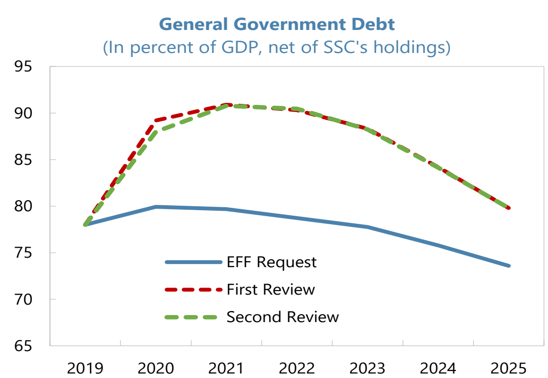
... as did the combined public sector balance.



More backloaded fiscal consolidation is necessary to protect a more fragile recovery...



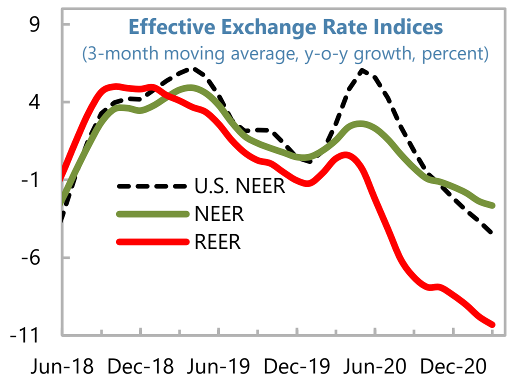
... while still achieving the 80 percent debt-to-GDP target by 2025.



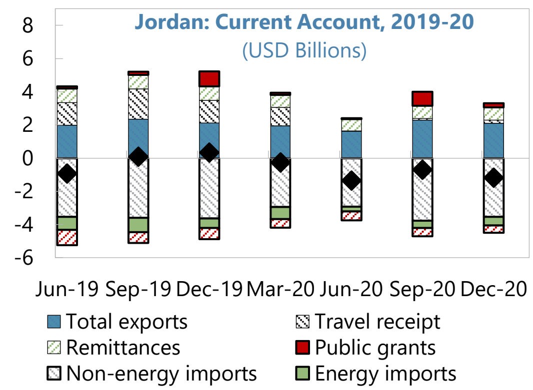
Sources: Jordanian authorities; and IMF staff estimates.

Figure 3. Jordan: External Developments

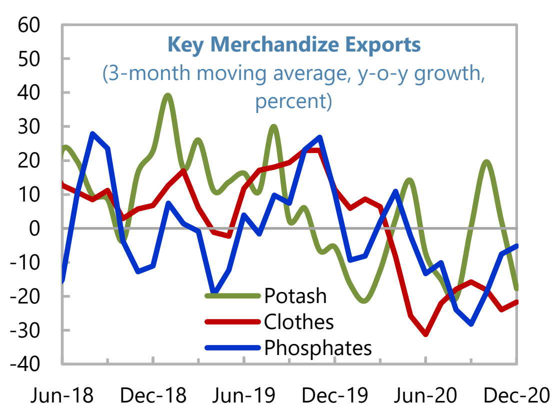
The JD REER has depreciated after 2020H1 in line with a weaker trade-weighted US$.

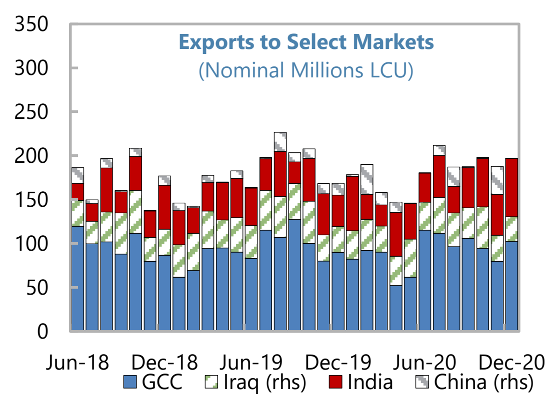


Merchandize exports and remittances have held up well, but travel receipts have been hit hard ...

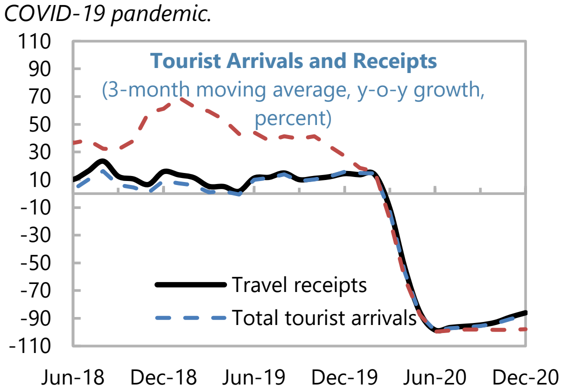


42Prior to 2020, exports benefitted from rising prices of potash and phosphates and booming clothes exports, as well as improved access to GCC and Asian markets. The Covid-19 pandemic created a slump in commodity prices in the first half of 2020 but the subsequent rebound, along with at-capacity levels of production, have seen a recovery.

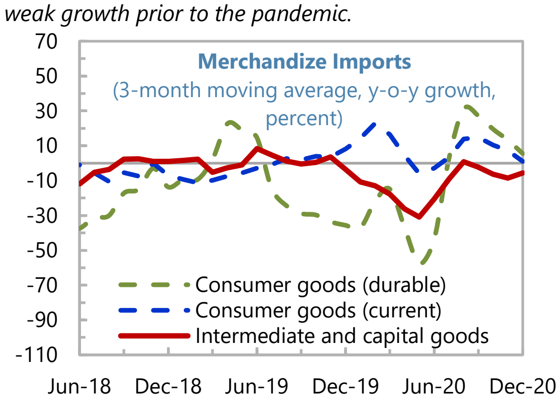




The tourism sector benefitted from the 2018 entry of European low-cost airlines, but ground to a halt during the COVID-19 pandemic.



2020H2 saw a sharp recovery in non-energy imports, especially consumer durables which had seen relatively weak growth prior to the pandemic.

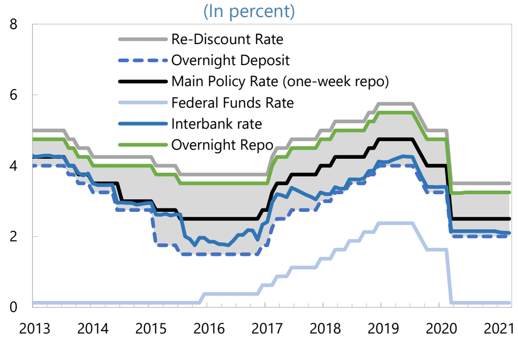


Sources: Central Bank of Jordan; Jordan Department of Statistics; and IMF staff estimates.

Figure 4. Jordan: Monetary and Financial Indicators

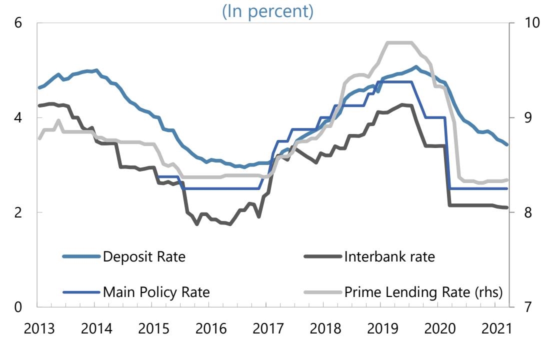
CBJ cut its main policy rate in March 2020 in response to COVID-19 and has kept it there since…

Interest Rates
(In percent)



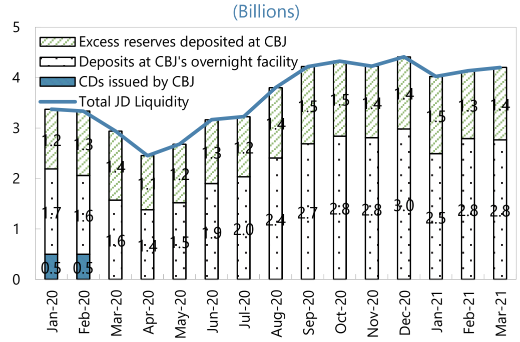
…contributing to an easing in deposit and lending rates…

Interest Rates
(In percent)



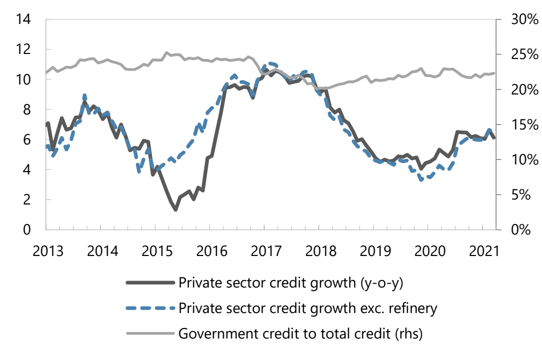
…and in banks' liquidity positions…

Banks' JD Liquidity
(Billions)



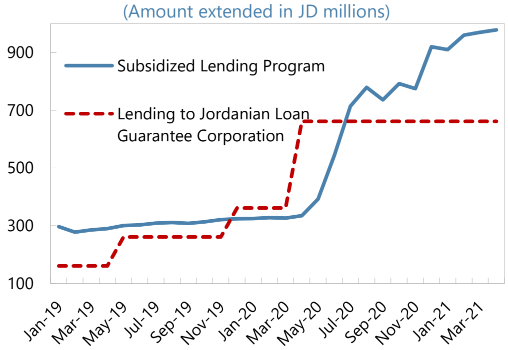
…supporting private sector credit growth.

Domestic Credit of the Banking System



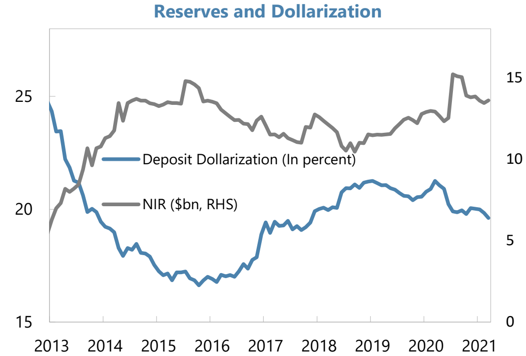
CBJ also continued expanding its subsidized lending programs especially for SMEs.

CBJ Subsidized Lending Schemes
(Amount extended in JD millions)



Adequate reserves have helped keep dollarization in check.

Reserves and Dollarization

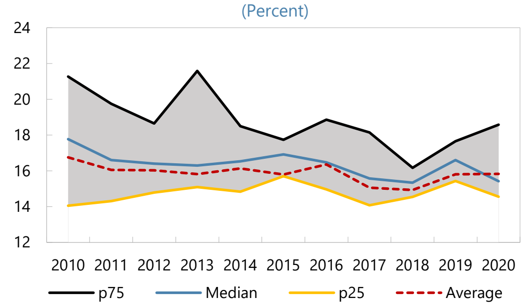


Sources: Jordanian authorities; and IMF staff estimates.

Figure 5. Jordan: Selected Indicators for Jordanian Banks
(As of end-December 2020)

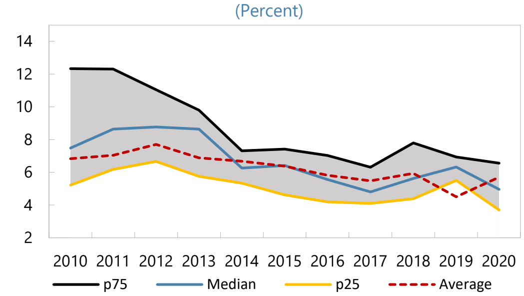
Banks continue to remain well-capitalized....

Tier 1 Capital to Risk Weighted Assets
(Percent)



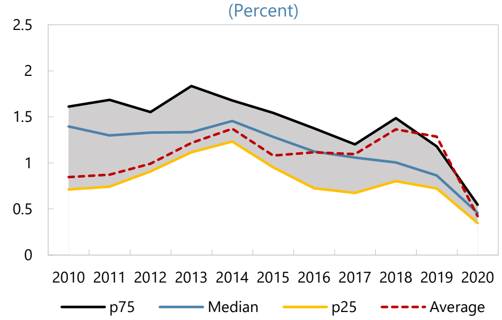
despite the slight uptick in NPLs, due to the COVID shock.

Non-Performing Loans less Provisions 1/
(Percent)



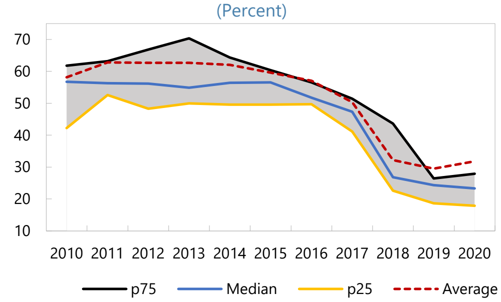
But profitability has deteriorated somewhat....

Return on Total Assets
(Percent)



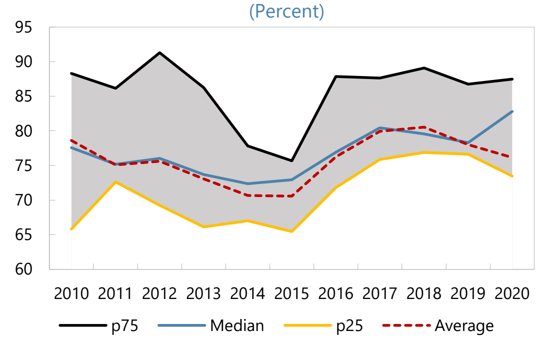
as has liquidity in recent years.

Liquidity 2/
(Percent)



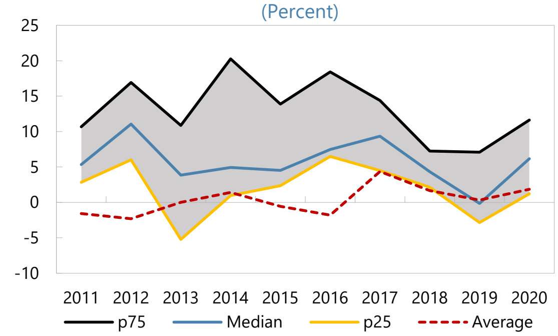
Loans have continued to be stably funded by deposits...

Total Loans to Total Deposits
(Percent)



And loan growth has held up well despite the pandemic.

Annualized Loan Growth
(Percent)



Sources: Bloomberg; and IMF staff calculations. The sample includes the following 14 Jordanian banks: Arab Bank PLC, Housing Bank for Trade and Finance, Bank of Jordan, Bank Al Etihad, Jordan Kuwait Bank, Cairo Amman Bank, Capital Bank of Jordan, Arab Jordan Investment Bank, Societe Generale de Banque – Jordanie, Jordan Ahli Bank, Safwa Islamic Bank, Invest Bank, Jordan Commercial Bank, Arab Banking Corp. The average is a weighted average by total assets of the above banking sample.
1/Non-performing loans to gross loans, less ratio of provisions to gross loans.
2/Liquid assets to customer deposits and short-term funding.

Table 1. Jordan: Selected Economic Indicators and Macroeconomic Outlook, 2019–26

	Act. 2019	1st Rev 2020	Proj. 2020	1st Rev 2021	Proj. 2021	Proj. 2022	Proj. 2023	Proj. 2024	Proj. 2025	Proj. 2026
	(Annual percent change, unless otherwise noted)									
Output and prices										
Real GDP at market prices	2.0	-3.0	-1.6	2.5	2.0	2.7	3.1	3.3	3.3	3.3
GDP deflator at market prices	1.7	0.0	-0.3	1.3	1.6	2.0	2.5	2.5	2.5	2.5
Nominal GDP at market prices	3.7	-3.0	-1.8	3.8	3.6	4.8	5.7	5.9	5.9	5.9
Nominal GDP at market prices (JD millions)	31,597	30,654	31,025	31,814	32,149	33,677	35,589	37,683	39,899	42,246
Nominal GDP at market prices ($ millions)	44,566	43,236	43,759	44,872	45,344	47,500	50,196	53,149	56,276	59,586
Consumer price inflation (annual average)	0.7	0.1	0.4	1.3	2.3	2.0	2.5	2.5	2.5	2.5
Consumer price inflation (end of period)	0.7	-1.3	-0.3	1.3	2.5	2.0	2.5	2.5	2.5	2.5
Unemployment rate (period average, percent) 1/	19.1	…	22.7	…	…	…	…	…	…	…
	(Percent of GDP, unless otherwise noted)									
Fiscal operations										
Revenue and grants	24.3	23.8	22.7	24.9	24.8	24.8	24.1	23.9	23.7	23.5
Of which: grants	2.5	3.5	2.5	2.5	2.6	2.3	1.4	1.2	0.9	0.9
Expenditure 2/	29.2	30.5	30.0	30.4	30.6	30.0	29.7	29.5	29.1	28.8
Unallocated discretionary fiscal measures 3/	0.0	0.0	0.0	0.0	0.0	1.1	2.2	3.3	3.7	3.7
Overall central government balance 4/	-4.9	-6.7	-7.3	-5.5	-5.8	-4.1	-3.5	-2.3	-1.8	-1.7
Overall central government balance excluding grants	-7.4	-10.2	-9.9	-8.0	-8.4	-6.4	-4.9	-3.5	-2.7	-2.6
Primary government balance (excluding grants)	-3.7	-6.0	-5.7	-3.7	-4.3	-2.4	-0.8	0.5	1.2	1.2
NEPCO operating balance	0.0	-0.2	-0.3	-0.9	-0.9	-0.9	-0.9	-0.7	-0.7	-0.6
WAJ overall balance	-0.9	-1.1	-1.0	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7
Water distribution companies overall balance	-0.3	-0.5	-0.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Combined public sector balance 5/	-4.9	-7.7	-7.4	-5.8	-6.3	-4.4	-2.7	-1.2	-0.3	-0.2
Consolidated general government overall balance, excl. grants	-5.1	-10.1	-8.6	-6.8	-7.7	-5.8	-4.3	-2.8	-2.0	-2.0
Consolidated general government primary balance, excl. grants	-1.0	-6.4	-3.9	-3.1	-3.0	-1.2	0.3	1.8	2.5	2.4
Government and guaranteed gross debt 6/	97.4	110.3	109.0	114.0	113.6	114.7	113.5	110.3	106.7	103.3
Government and guaranteed gross debt, net of SSC's holdings 6/	78.0	89.2	88.0	90.9	90.9	90.6	88.3	84.3	79.8	75.9
Of which: external debt	35.0	41.3	40.2	45.0	45.3	46.5	46.0	44.5	42.1	39.5
External sector										
Current account balance (including grants), *of which:*	-2.1	-6.9	-8.0	-6.8	-8.3	-3.9	-3.0	-2.6	-2.7	-2.5
Exports of goods, f.o.b. ($ billions)	8.3	7.6	8.0	8.4	8.6	9.2	9.7	10.3	10.9	11.5
Imports of goods, f.o.b. ($ billions)	17.1	15.4	15.2	16.5	16.6	17.5	18.1	18.9	19.7	20.5
Oil and oil products ($ billions)	3.1	2.2	2.0	2.3	2.6	2.7	2.6	2.6	2.7	2.7
Current account balance (excluding grants)	-5.1	-11.0	-10.9	-9.9	-11.6	-6.9	-5.5	-4.8	-4.6	-4.2
Private capital inflows (net)	1.4	1.1	1.4	2.6	2.5	2.9	3.4	3.9	3.8	3.8
Public grants and identified budget loans (excl. IMF)	5.8	7.2	5.4	7.1	7.3	5.1	4.2	2.2	1.9	1.8
	(Annual percent change)									
Monetary sector										
Broad money	4.8	2.7	5.8	3.4	3.6	4.8	5.7	5.9	5.9	5.9
Net foreign assets	3.1	-6.3	-0.1	2.1	2.5	8.8	14.4	14.0	8.9	7.9
Net domestic assets	5.3	5.1	7.4	3.7	3.9	3.7	3.4	3.5	4.9	5.2
Credit to private sector	4.2	6.3	6.3	2.1	3.3	4.5	4.8	6.0	6.8	7.0
Credit to central government	13.7	3.6	11.4	1.8	-0.2	3.5	2.0	-0.5	0.7	1.0
Memorandum items:										
Gross usable international reserves ($ millions)	13,512	14,016	15,127	14,312	15,137	16,085	16,328	17,742	18,885	19,999
In months of prospective imports	8.9	8.1	9.0	7.7	8.2	8.3	8.1	8.5	8.6	9.1
In percent of reserve adequacy metric	100	105	110	100	102	102	99	102	105	108
Net international reserves ($ millions)	12,765	12,777	13,844	12,681	13,316	13,888	14,076	15,671	17,045	18,376
Population (millions) 7/	10.1	10.2	10.2	10.3	10.3	10.4	10.5	10.5	10.6	10.7
Nominal per capita GDP ($)	4,426	4,235	4,286	4,348	4,394	4,565	4,793	5,043	5,307	5,584
Real effective exchange rate (end of period, 2010=100) 8/	116.5	…	108.5	…	…	…	…	…	…	…
Percent change (+=appreciation; end of period)	-1.5	…	-6.9	…	…	…	…	…	…	…

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

1/ The Department of Statistics changed the methodology of the Survey of Employment and Unemployment in 2017 following ILO recommendations. The variable now reports unemployment rates for Jordanians only (excluding foreigners).

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

3/ Estimated amount of fiscal measures that are needed to meet the programmed fiscal adjustment over 2022-25.

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. Jordan: Central Government—Summary of Fiscal Operations, 2019–26 1/
(In millions of Jordanian dinars)

	Prel.	1st Rev	Prel.	1st Rev 3/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	2019	2020		2021		2022	2023	2024	2025	2026
Total revenue and grants	7,677	7,307	7,029	7,932	7,972	8,347	8,580	9,022	9,448	9,920
Domestic revenue	6,889	6,242	6,238	7,143	7,135	7,579	8,068	8,584	9,075	9,553
Tax revenue, *of which:*	4,823	4,907	4,958	5,423	5,362	5,722	6,101	6,477	6,844	7,191
Taxes on income and profits	1,020	1,111	1,103	1,143	1,062	1,156	1,279	1,379	1,492	1,582
Sales taxes 2/	3,302	3,478	3,534	3,874	3,892	4,135	4,360	4,605	4,842	5,080
Taxes on foreign trade	277	271	274	316	327	340	350	359	370	380
Nontax revenue 2/	2,066	1,335	1,279	1,719	1,774	1,857	1,967	2,107	2,231	2,361
Grants	789	1,065	791	789	836	768	512	438	372	368
Total expenditures, inc. other use of cash	9,220	9,362	9,294	9,687	9,841	10,088	10,586	11,110	11,621	12,168
Current expenditure	7,913	8,345	8,434	8,671	8,852	8,926	9,355	9,764	10,202	10,509
Wages and salaries	1,553	1,479	1,677	1,667	1,759	1,803	1,848	1,894	1,894	1,894
Interest payments	1,147	1,279	1,289	1,363	1,324	1,353	1,441	1,488	1,550	1,601
Domestic	729	871	893	865	874	912	964	1,023	1,074	1,141
External	418	408	396	499	449	440	477	465	477	460
Military and public security expenditure, *of which:*	2,545	2,686	2,636	2,733	2,747	2,841	3,002	3,179	3,340	3,461
Military expenditure	1,338	1,438	1,390	1,445	1,441	1,494	1,578	1,671	1,759	1,817
Subsidies	20	20	19	0	20	20	20	20	20	20
Transfers, *of which*:	2,324	2,543	2,399	2,574	2,625	2,483	2,593	2,705	2,892	2,997
Pensions	1,426	1,595	1,570	1,625	1,612	1,679	1,774	1,878	1,989	2,106
Cash transfers, NAF social assistance	140	191	240	160	251	201	201	201	201	201
Transfers to health fund, *of which:*	273	175	238	142	144	142	130	108	108	108
Health arrears clearance	97	55	136	40	74	40	40	18	18	18
Energy arrears clearance	70	0	6	138	0	0	0	0	45	0
Transfers to public sector institutions	199	298	212	198	207	216	228	242	256	271
Other transfers	215	284	132	312	411	246	260	276	293	311
Purchases of goods & services	324	337	415	314	377	427	451	477	505	535
Capital expenditure	990	965	823	1,016	989	1,162	1,231	1,345	1,419	1,659
Transfer to NEPCO	0	0	9	0	0	0	0	0	0	0
Adjustment on receivables and payables (use of cash)	317	53	28	0	0	0	0	0	0	0
Overall central government balance at current policies	-1,543	-2,055	-2,266	-1,754	-1,870	-1,741	-2,006	-2,087	-2,173	-2,247
Unallocated discretionary fiscal measures (cumulative) 3/	0	0	0	0	0	358	775	1,221	1,474	1,533
Overall central government balance after fiscal measures	-1,543	-2,055	-2,266	-1,754	-1,870	-1,383	-1,231	-866	-699	-714
Advances to water sector, *of which:*	512	419	368	401	413	386	260	317	300	305
Distribution companies	0	143	139	72	69	61	57	52	47	48
Financing	2,055	2,475	2,634	2,155	2,282	1,769	1,491	1,183	999	1,019
Foreign financing (net) 4/	194	1,056	974	1,092	1,437	555	404	312	-48	-92
Domestic financing (net)	1,860	1,419	1,660	1,064	846	1,214	1,087	871	1,046	1,111
CBJ on-lending of net IMF financing	-293	348	343	292	394	284	67	-89	-125	-115
Other domestic bank financing	1,093	140	583	-120	-367	109	187	76	233	274
Domestic nonbank financing	872	783	743	891	868	842	854	904	958	972
Use of deposits	112	147	-10	0	-50	-20	-20	-20	-20	-20
Sale of non-financial assets	77	0	0	0	0	0	0	0	0	0
Memorandum items:										
NEPCO operating balance	2	-47	-89	-293	-282	-315	-309	-280	-267	-244
WAJ overall balance, excluding project grants	-291	-336	-299	-284	-284	-293	-294	-286	-275	-278
Water distribution companies overall balance	-87	-143	-139	-72	-69	-61	-57	-52	-47	-48
Primary government balance, excluding grants	-1,184	-1,841	-1,767	-1,180	-1,382	-798	-303	184	479	520
Primary government balance, excluding grants and transfers to NEPCO and WAJ	-1,184	-1,841	-1,758	-1,180	-1,382	-798	-303	184	479	520
Combined public balance 5/	-1,559	-2,367	-2,285	-1,830	-2,017	-1,467	-963	-434	-111	-50
Overall public balance, including grants	-1,900	-2,559	-2,775	-2,354	-2,469	-1,999	-1,837	-1,428	-1,231	-1,227
Consolidated general government overall balance, excl. grants	-1,622	-3,105	-2,660	-2,178	-2,469	-1,947	-1,537	-1,050	-796	-825
Consolidated general government primary balance, excl. grants	-301	-1,964	-1,212	-976	-967	-390	116	667	995	1,030
Social Security Corporation balance	1,084	541	923	1,015	872	872	866	872	864	826
Government and guaranteed gross debt	30,768	33,805	33,828	36,264	36,524	38,631	40,418	41,594	42,640	43,698
Government and guaranteed gross debt, net of SSC's holdings	24,651	27,340	27,295	28,908	29,219	30,519	31,469	31,770	31,859	32,072
Of which: External	11,046	12,669	12,462	14,326	14,569	15,664	16,370	16,771	16,778	16,674
Programmed stock of health and energy arrears	300	467	420	392	246	206	167	148	85	67
Stock of health arrears	110	275	275	235	201	161	122	103	85	67
Stock of energy arrears (fuel and electricity) 6/	190	192	145	157	45	45	45	45	0	0
GDP at market prices	31,597	30,654	31,025	31,814	32,149	33,677	35,589	37,683	39,899	42,246

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/ In 2019 non-tax revenues on oil derivatives were reclassifi

3/ Unidentified fiscal measures that will need to be implemented to eliminate primary deficit (excluding grants) by the end of the program.

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.

6/ In 2021, JD100 million in arrears will be resolved through securitization.

Table 2b. Jordan: Central Government—Summary of Fiscal Operations, 2019–26 1/

(In percent of GDP)

	Prel.	1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	2019		2020		2021	2022	2023	2024	2025	2026
Total revenue and grants	24.3	23.8	22.7	24.9	24.8	24.8	24.1	23.9	23.7	23.5
Domestic revenue	21.8	20.4	20.1	22.5	22.2	22.5	22.7	22.8	22.7	22.6
Tax revenue, *of which*:	15.3	16.0	16.0	17.0	16.7	17.0	17.1	17.2	17.2	17.0
Taxes on income and profits	3.2	3.6	3.6	3.6	3.3	3.4	3.6	3.7	3.7	3.7
Sales taxes 2/	10.5	11.3	11.4	12.2	12.1	12.3	12.3	12.2	12.1	12.0
Taxes on foreign trade	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Nontax revenue 2/	6.5	4.4	4.1	5.4	5.5	5.5	5.5	5.6	5.6	5.6
Grants	2.5	3.5	2.5	2.5	2.6	2.3	1.4	1.2	0.9	0.9
Total expenditures, inc. other use of cash	29.2	30.5	30.0	30.4	30.6	30.0	29.7	29.5	29.1	28.8
Current expenditure	25.0	27.2	27.2	27.3	27.5	26.5	26.3	25.9	25.6	24.9
Wages and salaries	4.9	4.8	5.4	5.2	5.5	5.4	5.2	5.0	4.7	4.5
Interest payments	3.6	4.2	4.2	4.3	4.1	4.0	4.0	3.9	3.9	3.8
Domestic	2.3	2.8	2.9	2.7	2.7	2.7	2.7	2.7	2.7	2.7
External	1.3	1.3	1.3	1.6	1.4	1.3	1.3	1.2	1.2	1.1
Military and public security expenditure, *of which:*	8.1	8.8	8.5	8.6	8.5	8.4	8.4	8.4	8.4	8.2
Military expenditure	4.2	4.7	4.5	4.5	4.5	4.4	4.4	4.4	4.4	4.3
Subsidies	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Transfers, *of which*:	7.4	8.3	7.7	8.1	8.2	7.4	7.3	7.2	7.2	7.1
Pensions	4.5	5.2	5.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0
Cash transfers, NAF social assistance	0.4	0.6	0.8	0.5	0.8	0.6	0.6	0.5	0.5	0.5
Transfers to health fund, *of which:*	0.9	0.6	0.8	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Health arrears clearance	0.3	0.2	0.4	0.1	0.2	0.1	0.1	0.0	0.0	0.0
Energy arrears clearance	0.2	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.1	0.0
Transfers to public sector institutions	0.6	1.0	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other transfers	0.7	0.9	0.4	1.0	1.3	0.7	0.7	0.7	0.7	0.7
Purchases of goods & services	1.0	1.1	1.3	1.0	1.2	1.3	1.3	1.3	1.3	1.3
Capital expenditure	3.1	3.1	2.7	3.2	3.1	3.5	3.5	3.6	3.6	3.9
Adjustment on receivables and payables (use of cash)	1.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall central government balance at current policies	-4.9	-6.7	-7.3	-5.5	-5.8	-5.2	-5.6	-5.5	-5.4	-5.3
Unallocated discretionary fiscal measures (cumulative) 3/	0.0	0.0	0.0	0.0	0.0	1.1	2.2	3.2	3.7	3.6
Overall central government balance after fiscal measures	-4.9	-6.7	-7.3	-5.5	-5.8	-4.1	-3.5	-2.3	-1.8	-1.7
Advances to water sector, *of which:*	1.6	1.4	1.2	1.3	1.3	1.1	0.7	0.8	0.8	0.7
Distribution companies	0.0	0.5	0.4	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Financing	6.5	8.1	8.5	6.8	7.1	5.3	4.2	3.1	2.5	2.4
Foreign financing (net) 4/	0.6	3.4	3.1	3.4	4.5	1.6	1.1	0.8	-0.1	-0.2
Domestic financing (net)	5.9	4.6	5.3	3.3	2.6	3.6	3.1	2.3	2.6	2.6
CBJ on-lending of net IMF financing	-0.9	1.1	1.1	0.9	1.2	0.8	0.2	-0.2	-0.3	-0.3
Other domestic bank financing	3.5	0.5	1.9	-0.4	-1.1	0.3	0.5	0.2	0.6	0.6
Domestic nonbank financing	2.8	2.6	2.4	2.8	2.7	2.5	2.4	2.4	2.4	2.3
Use of deposits	0.4	0.5	0.0	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Sale of non-financial assets	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
NEPCO operating balance	0.0	-0.2	-0.3	-0.9	-0.9	-0.9	-0.9	-0.7	-0.7	-0.6
WAJ overall balance, excluding project grants	-0.9	-1.1	-1.0	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7
Water distribution companies overall balance	-0.3	-0.5	-0.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-3.7	-6.0	-5.7	-3.7	-4.3	-2.4	-0.8	0.5	1.2	1.2
Combined public balance (PC) 5/	-4.9	-7.7	-7.4	-5.8	-6.3	-4.4	-2.7	-1.2	-0.3	-0.1
Overall public balance, including grants	-6.0	-8.3	-8.9	-7.4	-7.7	-5.9	-5.2	-3.8	-3.1	-2.9
Consolidated general government overall balance, excl. grants	-5.1	-10.1	-8.6	-6.8	-7.7	-5.8	-4.3	-2.8	-2.0	-2.0
Consolidated general government primary balance, excl. grants	-1.0	-6.4	-3.9	-3.1	-3.0	-1.2	0.3	1.8	2.5	2.4
Social Security Corporation balance	3.4	1.8	3.0	3.2	2.7	2.6	2.4	2.3	2.2	2.0
Government and guaranteed gross debt	97.4	110.3	109.0	114.0	113.6	114.7	113.6	110.4	106.9	103.4
Government and guaranteed gross debt, net of SSC's holdings	78.0	89.2	88.0	90.9	90.9	90.6	88.4	84.3	79.8	75.9
Of which: External	35.0	41.3	40.2	45.0	45.3	46.5	46.0	44.5	42.1	39.5
Programmed stock of health and energy arrears	0.9	1.5	1.4	1.2	0.8	0.6	0.5	0.4	0.2	0.2
Stock of health arrears	0.3	0.9	0.9	0.7	0.6	0.5	0.3	0.3	0.2	0.2
Stock of energy arrears (fuel and electricity) 6/	0.6	0.6	0.5	0.5	0.1	0.1	0.1	0.1	0.0	0.0
GDP at market prices (JD millions)	31,597	30,654	31,025	31,814	32,149	33,677	35,589	37,683	39,899	42,246

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/ In 2019 non-tax revenues on oil derivatives were reclassified as sales taxes.

3/ Unidentified fiscal measures that will need to be implemented to eliminate primary deficit (excluding grants) by the end of the program.

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.

6/ In 2021, JD100 million in arrears will be resolved through securitization.

Table 2c. Jordan: General Government—Summary of Fiscal Operations, 2019–26 1/

(In millions of Jordanian dinars, unless otherwise noted)

	2019	2020 Prel.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
A. Total general government revenues:	11,586	10,579	11,816	12,538	13,161	14,046	14,808	15,497
(in percent of GDP)	*36.7*	*34.1*	*36.8*	*37.2*	*37.0*	*37.3*	*37.1*	*36.7*
Central government revenues, excl. grants 2/	6,889	6,238	7,135	7,758	8,455	9,195	9,812	10,319
A*. Central government grants	789	791	836	768	512	438	372	368
NEPCO	1,547	1,326	1,429	1,452	1,491	1,550	1,591	1,634
WAJ	62	62	82	101	104	107	110	111
WAJ Revenues - excluding grants (million JD)	44	45	47	49	50	51	52	54
WAJ grants A**	18	17	35	53	54	56	57	57
Water distribution companies	210	149	196	209	219	230	241	246
SSC 3/	2,089	2,013	2,137	2,250	2,380	2,526	2,681	2,818
B. Total general government expenditure, inc. use of cash:	12,401	12,431	13,414	13,665	14,132	14,602	15,175	15,897
(in percent of GDP)	*39.2*	*40.1*	*41.7*	*40.6*	*39.7*	*38.7*	*38.0*	*37.6*
Central government 2/	9,220	9,294	9,841	9,909	10,198	10,499	10,884	11,401
NEPCO	1,545	1,415	1,711	1,768	1,801	1,830	1,858	1,878
WAJ	335	344	331	341	344	337	328	332
Water distribution companies	296	288	264	270	276	282	288	294
Water distribution companies deficit	33.65	14.21	9.96	9.96	9.96	9.96	9.96	10.16
SSC	1,005	1,090	1,266	1,378	1,513	1,654	1,817	1,992
(A-B). General government balance incl. unidentified measures	-816	-1,852	-1,598	-1,127	-971	-556	-367	-401
(in percent of GDP)	*-2.6*	*-6.0*	*-5.0*	*-3.3*	*-2.7*	*-1.5*	*-0.9*	*-0.9*
C. General government overall balance, excluding grants (A-B-A*-A**)	-1,622	-2,660	-2,469	-1,947	-1,537	-1,050	-796	-825
(in percent of GDP)	*-5.1*	*-8.6*	*-7.7*	*-5.8*	*-4.3*	*-2.8*	*-2.0*	*-2.0*
D. General government primary balance, excluding grants (C+E)	-301	-1,212	-967	-390	116	667	995	1,030
(in percent of GDP)	*-1.0*	*-3.9*	*-3.0*	*-1.2*	*0.3*	*1.8*	*2.5*	*2.4*
General government primary balance, including grants (D+A*)	*487.8*	*-421.3*	*-130.5*	*377.3*	*628.2*	*1,105.5*	*1,367.1*	*1,398.0*
(in percent of GDP)	*1.5*	*-1.4*	*-0.4*	*1.1*	*1.8*	*2.9*	*3.4*	*3.3*
Central government primary balance excluding grants	*-1,184*	*-1,767*	*-1,382*	*-798*	*-303*	*184*	*479*	*520*
(in percent of GDP)	*-3.7*	*-5.7*	*-4.3*	*-2.4*	*-0.8*	*0.5*	*1.2*	*1.2*
Balance of utilities (NEPCO, WAJ, water distribution companies)	*-375*	*-527*	*-635*	*-669*	*-660*	*-618*	*-589*	*-570*
Combined public sector balance (2)	*-1,560*	*-2,294*	*-2,017*	*-1,467*	*-963*	*-434*	*-111*	*-50*
(in percent of GDP)	*-4.9*	*-7.4*	*-6.3*	*-4.4*	*-2.7*	*-1.2*	*-0.3*	*-0.1*
General gov. overall balance excluding grants (1+2-3 = A-B-A*-A**)	-1,622	-2,660	-2,469	-1,947	-1,537	-1,050	-796	-825
E. Interest expenditure:	1,321	1,448	1,502	1,557	1,653	1,717	1,791	1,856
Central government (3)	1,147	1,289	1,324	1,353	1,441	1,488	1,550	1,601
NEPCO	115	114	133	164	175	191	205	218
WAJ Interest Payments	60	45	45	41	37	38	36	37
Consolidated debt of general government = Debt$_{t-1}$ + Net borrowing	24,651	27,295	29,219	30,519	31,469	31,771	31,859	32,073
(in percent of GDP)	*78.0*	*88.0*	*90.9*	*90.6*	*88.4*	*84.3*	*79.8*	*75.9*
Net borrowing need:								
General government overall deficit incl. discretionary measures			1,598	1,127	971	556	367	401
Prefunding of amortizing debt and use/buildup of deposits			42	41	37	32	26	10
SSIF investment outside GG			100	64	30	-2	-93	-19
Guaranteed off-budget project loans			62	85	92	76	76	92
CBJ repurchases in respect of 2012 EFF			-13	-18	-180	-360	-288	-269
Recapitalization and guarantee of Royal Jordanian			35	0	0	0	0	0
Securitization of domestic arrears			100					
Memorandum items:								
SSC balance, inc. interest revenue on government bonds (1)	1,084	923	872	872	866	872	864	826
Nominal GDP at market prices	31,597	31,025	32,149	33,677	35,589	37,683	39,899	42,246

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

1/Pending a formal switch to General Government reporting by the authorities, this table reports fiscal flows and debt stocks (direct and guaranteed) of the central government, NEPCO, WAJ, water distribution companies, and the SSC.

2/Includes unidentified/unallocated fiscal measures to be implemented in order to eliminate central government primary deficits by the end of the

3/Excludes SSC's interest earned on government bonds holdings.

Table 2d. Jordan: Central Government—Summary of Quarterly Fiscal Operations, 2020–21
(In millions of Jordanian dinars)

	2020					2021				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
					Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	1,571	1,458	2,273	1,727	7,029	1,852	1,848	1,756	2,516	7,972
Domestic revenue	1,483	1,431	1,759	1,565	6,238	1,797	1,824	1,729	1,785	7,135
Tax revenue, *of which*:	1,165	1,178	1,415	1,201	4,958	1,338	1,407	1,323	1,293	5,362
Taxes on income and profits	283	416	262	142	1,103	277	426	202	157	1,062
Sales taxes	810	704	1,047	973	3,534	969	880	1,019	1,024	3,892
Taxes on foreign trade	62	53	90	69	274	78	81	82	85	327
Other taxes	9	5	15	17	47	14	20	21	27	81
Nontax revenue	318	253	345	363	1,279	459	417	406	492	1,774
Grants	89	27	513	162	791	55	24	27	731	836
Total expenditures, inc. other use of cash	2,157	2,183	2,517	2,437	9,294	2,241	2,489	2,626	2,485	9,841
Current expenditure	1,933	2,018	2,260	2,223	8,434	2,043	2,147	2,203	2,458	8,852
Wages and salaries	422	406	402	447	1,677	435	423	414	487	1,759
Interest payments	313	289	339	348	1,289	358	319	339	308	1,324
Domestic	239	160	264	230	893	250	211	223	190	874
External	74	129	75	118	396	107	108	116	118	449
Military and public security expenditure	639	684	674	639	2,636	661	648	706	731	2,747
Subsidies	0	10	0	9	19	0	0	0	20	20
Transfers, *of which*:	512	572	736	579	2,399	531	654	670	769	2,625
Pensions	392	393	407	378	1,570	400	400	402	410	1,612
Cash transfers, NAF social assistance	32	31	141	36	240	46	62	71	73	251
Medical treatments, clearance of health and energy arrears	13	57	100	68	238	17	41	24	63	144
Transfers to public sector institutions	45	54	55	57	212	50	52	55	50	207
Other transfers	29	36	33	40	138	18	101	119	173	411
Purchases of goods & services	48	58	110	200	415	59	102	74	143	377
Capital expenditure	85	126	207	405	823	83	312	273	322	989
Adjustment on receivables and payables (use of cash)	135	38	47	-191	28	116	30	150	-296	0
Overall balance of the central government from above the line	-586	-726	-244	-710	-2,266	-390	-642	-870	32	-1,870
Statistical discrepancy, net	-91	0	104	-14	0	-20	0	0	20	0
Overall balance of the central government at current policies	-495	-726	-348	-696	-2,266	-370	-642	-870	12	-1,870
Unalocated discretionary fiscal measures 1/	0	0	0	0	0	0	0	0	0	0
Overall balance after fiscal measures	-495	-726	-348	-696	-2,266	-370	-642	-870	12	-1,870
Advances to water sector	85	90	73	120	368	58	89	95	170	413
Financing	580	816	422	816	2,634	427	731	965	159	2,282
Foreign financing (net) 2/	150	-88	1,371	-458	974	254	-6	480	709	1,437
Domestic financing (net)	430	905	-949	1,274	1,660	174	737	485	-550	846
CBJ on-lending of net IMF financing	47	231	-35	101	343	-4	0	-4	403	394
Other domestic bank financing	159	584	-322	163	583	-15	586	371	-1,309	-367
Domestic nonbank financing	528	353	-18	-121	743	223	170	119	356	868
Use of deposits	-304	-263	-574	1,131	-10	-30	-20	0	0	-50
Sale of non-financial assets	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
NEPCO operating balance	11	-41	-9	-50	-89	-30	-32	-74	-146	-282
WAJ overall balance, excluding project grants	-103	-82	-50	-64	-299	-70	-105	-47	-61	-284
Water distribution companies overall balance	-20	-60	-35	-24	-139	-5	-24	-20	-20	-69
Primary government balance, excluding grants and transfers to NEPCO and WAJ (PC)	-266	-462	-519	-510	-1,758	-67	-346	-558	-412	-1,382
Combined public balance (PC) 3/	-378	-646	-613	-649	-2,285	-171	-508	-699	-639	-2,017
Government and guaranteed gross debt 4/	31,228	32,842	33,938	33,828	33,828	34,276	35,226	36,231	36,524	36,524
Government and guaranteed gross debt, net of SSC's holdings (IT) 4/	24,695	26,176	27,319	27,295	27,295	27,589	28,539	29,544	29,219	29,219

Sources: Jordanian authorities; and IMF 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.

4/ Includes securitization of arrears to municipalities and other entities undertaken and guarantees given to Royal Jordanian.

Table 2e. Jordan: NEPCO Operating Balance and Financing, 2019–26
(In millions of Jordanian dinars, unless otherwise noted)

	2019 Act.	2020 1st Rev	2020 Act.	2021 1st Rev	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
NEPCO Balance										
Revenues *of which*	1,547	1,370	1,326	1,424	1,429	1,452	1,491	1,550	1,591	1,634
Electricity sales 1/	1,404	1,337	1,293	1,424	1,429	1,452	1,491	1,550	1,591	1,634
Fuel clause	144	33	33	-	-	-	-	-	-	-
Expenses	1,545	1,418	1,415	1,718	1,711	1,768	1,801	1,830	1,858	1,878
Purchase of electricity 2/	1,386	1,242	1,254	1,535	1,518	1,544	1,565	1,579	1,594	1,600
Depreciation	29	30	30	30	30	31	31	31	31	31
Interest payments 3/	115	121	114	123	133	164	175	191	205	218
Other expenses	16	25	16	29	30	29	29	29	29	29
Operating balance (QPC)	2	-47	-89	-293	-282	-315	-309	-280	-267	-244
Total net domestic financing	-2	47	89	293	282	315	309	280	267	244
Banks	114	388	97	374	368	331	309	280	267	244
Loans and bonds	26	388	96	374	597	331	309	280	267	244
Overdrafts	87	-	1	-	-159	-	-	-	-	-
Other items 4/	193	406	-139	-15	-15	-15	-	-	-	-
Increase in payables	-308	65	130	-65	-140	-	-	-	-	-
Direct transfer from central government	-342	-	-18	-	-	-	-	-	-	-
To cover losses and repay arrears	-342	-	-18	-	-	-	-	-	-	-
To repay loans	-	-	-	-	-	-	-	-	-	-
Payables to the private sector	34	65	148	-65	-140	-	-	-	-	-
Of which: Increase in arrears	-	65	70	-65	-70	-	-	-	-	-
Memorandum items:										
Operating balance (percent of GDP)	0.0	-0.2	-0.3	-0.9	-0.9	-0.9	-0.9	-0.7	-0.7	0.0
Brent oil prices (USD per barrel)	61	41	41	53	59	55	53	51	51	51
Outstanding loans and bonds (stocks, end-of-period)	2,399	2,722	2,495	3,161	3,092	3,423	3,732	4,012	4,279	4,523
Overdrafts	227	68	227	68	68	68	68	68	68	68
Total payables	3,070	3,070	3,200	3,135	3,060	3,060	3,060	3,060	3,060	3,060
to government 5/	2,477	2,477	2,459	2,477	2,459	2,459	2,459	2,459	2,459	2,459
to private sector	593	593	741	658	601	601	601	601	601	601
Of which: arrears (IT)	0	65	70	-	-	-	-	-	-	-

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

1/ Projections include prospects for increased revenues from exports to the West Bank and Iraq.

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.

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

Table 2f. Jordan: WAJ and Distribution Companies Balance and Financing, 2019–26

(In millions of Jordanian Dinars)

	2019 Act.	2020 1st Rev	2020 Proj.	2021 1st Rev	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
WAJ Balance:										
Total Revenues	44	28	45	50	47	49	50	51	52	54
of which:										
Sales of goods and services	44	28	45	50	47	48	50	51	52	54
Current Expenditure 1/	176	173	164	163	160	159	159	162	163	166
Salaries, wages and allowances 1/	22	20	20	21	20	21	22	22	23	24
Social Security contributions	2	3	3	3	3	3	3	3	3	3
Use of goods and services	27	36	38	32	32	33	34	35	35	36
Disi Project operational charge	44	42	39	42	40	41	42	43	44	44
Samra operational charge	21	19	19	20	19	20	20	21	21	21
Arrears clearance	27	112	23	…	…	…	…	…	…	…
Interest payments, *of which:*	60	53	45	45	45	41	37	38	36	37
Interest payments on domestic loans	50	42	35	26	26	18	11	11	6	2
Interest payments on foreign loans	10	10	9	12	12	13	13	14	15	15
Primary balance 2/	-72	-92	-75	-68	-68	-70	-71	-73	-74	-76
Capital Expenditure	159	191	180	171	171	182	186	175	165	166
WAJ Overall balance	-291	-336	-299	-284	-284	-293	-294	-286	-275	-278
Overall balance of Distribution Companies 3/	-87	-143	-139	-72	-69	-61	-57	-52	-47	-48
Overall balance Consolidated Water Sector 4/	-377	-479	-438	-356	-353	-353	-351	-338	-322	-326
Total net financing	377	479	438	356	353	353	351	338	322	326
Grants	18	22	17	50	35	53	54	56	57	57
Transfers from Central Government 5/	311	416	381	266	278	261	257	242	225	229
Loans (net borrowing)	-249	-178	-178	-95	-95	-85	37	-35	-35	16
of which:										
Domestic loans	-297	-218	-218	-135	-135	-125	-3	-75	-75	-24
Foreign loans	48	40	40	40	40	40	40	40	40	40
Others 6/	297	218	218	135	135	125	3	75	75	24
Memorandum items:										
WAJ overall balance (percent of GDP)	-0.9	-1.1	-1.0	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7
Overall balance of Distribution Companies (percent of GDP)	-0.3	-0.5	-0.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Overall balance Consolidated Water Sector (percent of GDP) 4/	-1.2	-1.6	-1.4	-1.1	-1.1	-1.0	-1.0	-0.9	-0.8	-0.8
Domestic payment arrears of WAJ in JD million 7/	0	112	23	0	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies in JD million 8/	102	143	88	215	157	218	274	326	373	421
Outstanding loans, *of which:*	2,125	2,353	2,327	2,524	2,510	2,686	2,979	3,187	3,377	3,621
Domestic loans and bonds	655	437	437	302	302	177	174	99	24	0
Foreign loans	480	520	520	560	560	600	640	680	720	760
Advances from Central Government	989	1396	1370	1662	1647	1908	2165	2407	2632	2861
Grants and foreign loans to capital expenditure ratio (in percent)	41	38	32	58	44	51	51	55	59	59
Grants to capital expenditure ratio (in percent)	11	12	10	29	20	29	29	32	35	35
Effective interest rate (in percent), *of which:*	2.9	2.5	2.1	1.9	1.9	1.6	1.4	1.3	1.1	1.1
Domestic loans (in percent)	5.3	6.4	5.4	6.0	6.0	6.0	6.2	6.3	6.1	6.3
Foreign loans (in percent)	2.2	2.2	1.9	2.4	2.4	2.2	2.2	2.2	2.2	2.1

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 2019 through a one-off settlement of intra-governmental liabilities among the water distribution companies, NEPCO, and the ministry of finance.

Table 3a. Jordan: Summary Balance of Payments, 2019–26
(In millions of U.S. dollars, unless otherwise indicated)

	2019	2020		2021		2022	2023	2024	2025	2026
		1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account (CA)	-948	-2,970	-3,488	-3,088	-3,785	-1,850	-1,516	-1,400	-1,515	-1,479
Trade balance	-8,747	-7,778	-7,198	-8,159	-8,011	-8,329	-8,406	-8,568	-8,803	-9,010
Exports f.o.b.	8,329	7,651	7,954	8,320	8,565	9,185	9,733	10,318	10,889	11,492
Imports f.o.b.	17,076	15,429	15,153	16,479	16,576	17,514	18,139	18,886	19,692	20,502
Energy	3,080	2,185	1,978	2,312	2,563	2,659	2,615	2,632	2,673	2,681
Non-energy	13,996	13,244	13,174	14,167	14,013	14,855	15,524	16,254	17,019	17,820
Services and income (net), *of which:*	2,953	-207	-779	528	-446	1,845	2,384	2,757	2,944	3,130
Travel receipts	5,794	1,502	1,411	3,081	2,257	5,437	6,174	6,757	7,194	7,632
Current transfers (net), *of which:*	4,846	5,014	4,489	4,542	4,672	4,634	4,506	4,411	4,344	4,401
Public grants	1,331	1,776	1,267	1,407	1,489	1,416	1,262	1,143	1,050	1,043
Remittances	3,338	2,938	3,033	2,939	3,034	3,094	3,187	3,281	3,379	3,480
Capital and financial account 1/	-345	1,045	1,053	1,437	2,140	1,708	1,173	3,295	2,889	2,811
Public sector, *of which:* 2/	-1,304	373	319	86	516	104	-1,057	747	240	70
Eurobonds	-1,000	500	501	0	500	0	0	0	0	0
Issuance	0	1,750	1,750	0	500	1,000	0	0	1,000	1,000
Ammortization	-1,000	-1,250	-1,249	0	0	-1,000	0	0	-1,000	-1,000
Public sector loans	-258	-47	-104	186	116	154	110	747	240	70
Disbursement (xcl. program financing)	314	488	387	615	619	598	583	1,153	902	659
Ammortization	-572	-535	-492	-429	-503	-444	-473	-406	-662	-589
GCC deposits at CBJ	0	0	0	0	0	0	-1,167	0	0	0
Foreign direct investment	687	685	701	1,000	1,021	1,323	1,651	2,001	2,096	2,189
Portfolio flows (private)	-62	-216	-95	150	106	55	56	54	54	54
Other capital flows	334	203	129	200	496	226	523	493	499	498
Errors and omissions	-119	-593	797	0	0	0	0	0	0	0
Overall balance	-1,412	-2,518	-1,638	-1,651	-1,646	-142	-343	1,895	1,373	1,332
Financing	1,412	2,518	1,638	1,651	1,646	142	343	-1,895	-1,373	-1,332
Reserves (+ = decrease)	-571	-17	-1,110	-300	-10	-948	-243	-1,414	-1,143	-1,114
Commercial banks' NFA (+ = decrease)	972	700	1,139	-200	-700	-300	-300	-300	0	0
Program financing (+ = increase)	1,012	1,835	1,609	2,151	2,356	1,390	886	-181	-230	-217
Official budget support	1,260	1,344	1,115	1,757	1,818	1,014	831	0	0	0
World Bank	810	414	403	430	511	354	219	0	0	0
Bilateral and other multilateral loans	449	931	713	1,312	1,307	661	613	0	0	0
EU emergency pandemic support	0	124	116	122	121	0	0	0	0	0
IMF (net), *of which:*	-248	491	493	394	538	375	54	-181	-230	-217
Fund purchases, *of which:*	166	687	690	412	557	400	201	101	0	0
RFI	0	401	401	0	0	0	0	0	0	0
EFF augmentation	...	0	...	...	140	70	0	0	0	0
Memorandum items:										
Gross reserves	15,402	15,838	16,960	16,138	16,970	17,918	18,161	19,575	20,718	21,832
Gross usable reserves 3/	13,512	14,051	15,127	14,351	15,138	16,085	16,328	17,743	18,886	20,000
In percent of the IMF Reserve Adequacy Metric	100	105	110	100	102	102	99	102	105	108
In months of next year's imports of GNFS	8.9	8.2	9.0	7.7	8.2	8.3	8.1	8.5	8.6	8.8
Current account (percent of GDP)	-2.1	-6.9	-8.0	-6.9	-8.3	-3.9	-3.0	-2.6	-2.7	-2.5
Current account ex-grants (percent of GDP)	-5.1	-11.0	-10.9	-10.0	-11.6	-6.9	-5.5	-4.8	-4.6	-4.2
CA ex-grants and energy imports (percent of GDP)	1.8	-5.9	-6.3	-4.9	-6.0	-1.3	-0.3	0.2	0.2	0.3
Energy imports	6.9	5.1	4.5	5.2	5.7	5.6	5.2	5.0	4.7	4.5
Public grants	3.0	4.1	2.9	3.1	3.3	3.0	2.5	2.2	1.9	1.8
Merchandize export growth (percent)	7.3	-8.2	-4.5	8.7	7.7	7.2	6.0	6.0	5.5	5.5
Re-exports	9.9	-30.0	-34.6	25.9	15.1	15.0	5.3	4.5	4.2	4.0
Domestic exports	6.9	-4.3	1.0	6.5	6.8	6.3	6.1	6.2	5.7	5.7
Merchandize import growth (percent)	-5.5	-11.0	-11.3	6.8	9.4	5.7	3.6	4.1	4.3	4.1
Energy (percent)	-18.2	-29.1	-35.8	5.8	29.5	3.8	-1.7	0.6	1.6	0.3
Non-energy (percent)	-2.2	-7.1	-5.9	7.0	6.4	6.0	4.5	4.7	4.7	4.7
Travel growth (percent)	10.2	-74.1	-75.7	105.1	60.0	140.9	13.6	9.4	6.5	6.1
Remittances growth (percent)	0.9	-12.0	-9.1	0.0	0.0	2.0	3.0	3.0	3.0	3.0
Total external debt (percent of GDP)	68.0	75.2	78.4	78.0	83.1	82.9	81.2	78.5	74.8	71.0
Of which, Public external debt (Percent of GDP) 4/	35.0	41.3	40.2	45.0	45.3	46.5	46.0	44.5	42.1	39.5
Nominal GDP	44,566	43,236	43,759	44,871	45,344	47,499	50,196	53,149	56,276	59,586

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

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

2/ Includes changes in CBJ liabilities, including GCC deposits of $1.2 billion made in 2018 and maturing in 2023.

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

4/ Does not include GCC deposits at CBJ.

Table 3b. Jordan: External Financing Requirements and Sources, 2019–26
(In millions of U.S. dollars, unless otherwise indicated)

		2019	2020		2021		2022	2023	2024	2025	2026
			1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(1)	**Gross financing requirements**	**4,265**	**6,727**	**6,692**	**4,943**	**5,796**	**4,735**	**4,564**	**3,230**	**4,458**	**4,329**
	Current account deficit (excl. grants)	2,279	4,746	4,755	4,496	5,274	3,266	2,778	2,543	2,566	2,522
	of which: Energy imports	3,080	2,185	1,978	2,312	2,563	2,659	2,615	2,632	2,673	2,681
	Amortization of public sector loans 1/	572	535	492	429	503	444	473	406	662	589
	Amortization of sovereign bonds 2/	1,000	1,250	1,249	0	0	1,000	0	0	1,000	1,000
	GCC deposits at the CBJ	0	0	0	0	0	0	1,167	0	0	0
	IMF repurchases	414	196	196	18	19	25	147	281	230	217
(2)	**Change in reserves (+ = increase)**	**571**	**17**	**1,110**	**300**	**10**	**948**	**243**	**1,414**	**1,143**	**1,114**
(3)	**Gross financing sources**	**3,530**	**5,305**	**5,200**	**3,073**	**3,431**	**4,268**	**3,775**	**4,544**	**5,601**	**5,443**
	FDI, net	687	685	701	1,000	1,021	1,323	1,651	2,001	2,096	2,189
	Public grants	1,331	1,776	1,267	1,407	1,489	1,416	1,262	1,143	1,050	1,043
	Public sector borrowing (xcl. official budget support) 2	314	488	387	615	619	598	583	1,153	902	659
	Issuance of sovereign bonds 3/	0	1,750	1,750	0	500	1,000	0	0	1,000	1,000
	GCC deposits at the CBJ	0	0	0	0	0	0	0	0	0	0
	Non-resident purchases of local debt	26	0	-8	0	0	0	0	0	0	0
	CBJ other financing (net) 4/	-72	-81	-69	-100	-100	-50	0	0	0	0
	Private capital flows, net 5/	1,243	687	1,173	151	-98	-19	278	247	553	551
(4)	**Errors and omissions**	-119	-593	797	0	0	0	0	0	0	0
(1)+(2)-(3)-(4)	**Total financing needs**	**1,425**	**2,031**	**1,805**	**2,169**	**2,374**	**1,415**	**1,032**	**101**	**0**	**0**
	Official public external financing	**1,425**	**2,031**	**1,805**	**2,169**	**2,374**	**1,415**	**1,032**	**101**	**0**	**0**
	Identified official budget support	1,260	1,344	1,115	1,757	1,818	1,014	831	0	0	0
	IMF purchases, *of which*	166	687	690	412	557	400	201	101	0	0
	EFF augmentation	…	…	…	…	140	70	0	0	0	0
	Memorandum Items:										
	Gross financing requirements (in percent of GDP)	19.0	31.0	30.4	21.9	25.4	19.8	18.1	12.1	15.8	14.5
	Gross Usable Reserves	13,512	14,051	15,127	14,351	15,138	16,085	16,328	17,743	18,886	20,000
	In percent of the IMF Reserve Adequacy Metric 6/	100	105	110	100	102	102	99	102	105	108
	In months of next year's imports of GNFS	8.9	8.2	9.0	7.7	8.2	8.3	8.1	8.5	8.6	8.8

Sources: Jordanian authorities; and IMF staff estimates and projections.
1/ Includes project loans and Arab Monetary Fund and loans on the books of CBJ, and excludes IMF repurchases.
2/ Includes loans on CBJ books.
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. Jordan: Foreign Exchange Needs and Sources, 2019–26
(In millions of U.S. dollars, unless otherwise indicated)

		2019	2020		2021		2022	2023	2024	2025	2026
			1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(1)	**General Government Gross Needs**	**3,656**	**3,582**	**3,669**	**2,922**	**3,042**	**3,526**	**3,661**	**1,851**	**3,088**	**4,195**
	NEPCO energy imports	955	884	913	853	734	757	759	761	763	765
	Net interest payments	315	317	419	471	437	400	416	403	432	473
	Amortization of external debt 1/	1,985	1,981	1,937	447	522	1,469	1,786	687	1,892	1,806
	Amortization of domestic debt in FX	400	400	400	1,150	1,350	900	700	0	0	1,150
(2)	**General Government Sources**	**2,611**	**5,101**	**4,694**	**3,585**	**4,315**	**4,314**	**2,746**	**2,397**	**2,952**	**3,852**
	Public grants	1,331	1,776	1,267	1,407	1,489	1,416	1,262	1,143	1,050	1,043
	Public sector borrowing 2/	480	1,175	1,077	1,028	1,176	998	784	1,254	902	659
	Sovereign bonds 3/	0	1,750	1,750	0	500	1,000	0	0	1,000	1,000
	Local bonds in FX	800	400	600	1,150	1,150	900	700	0	0	1,150
	GCC deposits at the CBJ	0	0	0	0	0	0	0	0	0	0
(3)=(2)-(1)	**General Government Balance**	**-1,045**	**1,519**	**1,025**	**663**	**1,272**	**788**	**-914**	**546**	**-135**	**-342**
(4)	**Financing under the EFF**	**1,260**	**1,344**	**1,115**	**1,757**	**1,818**	**1,014**	**831**	**0**	**0**	**0**
	Identified official budget support	1,260	1,344	1,115	1,757	1,818	1,014	831	0	0	0
(5)=(3)+(4)	**General Government Balance under the EFF**	**215**	**2,863**	**2,140**	**2,420**	**3,090**	**1,803**	**-83**	**546**	**-135**	**-342**
(6)	**CBJ Balance under the EFF**, of which	**-545**	**-17**	**-1,119**	**-300**	**-10**	**-948**	**-243**	**-1,414**	**-1,143**	**-1,114**
	Increase in gross reserves	571	17	1,110	300	10	948	243	1,414	1,143	1,114
(7)=(5)+(6)	**Public Sector Net Balance**	**-330**	**2,846**	**1,022**	**2,121**	**3,080**	**855**	**-326**	**-868**	**-1,278**	**-1,457**

Sources: Jordanian authorities; and IMF 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. Jordan: External Budget Financing, 2019–26
(In millions of U.S. dollars unless otherwise indicated)

	2019	2020		2021		2022	2023	2024	2025	2026
	Prel.	1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Budget grants	**972**	**1,381**	**1,047**	**1,004**	**1,089**	**996**	**675**	**618**	**525**	**518**
EU	82	87	70	93	89	66	0	43	43	43
GCC 1/	99	365	73	127	117	150	161	74	0	0
United States	745	845	845	745	845	745	0	0	0	0
Other 2/	46	85	58	38	38	35	514	501	482	475
GCC grants transferred from CBJ to MOF	**159**	**120**	**68**	**109**	**91**	**87**	**47**	**0**	**0**	0
Loans	**1,471**	**1,524**	**1,365**	**1,969**	**1,969**	**1,226**	**1,043**	**846**	**595**	**459**
Multilateral	**1,061**	**607**	**665**	**741**	**816**	**615**	**483**	**448**	**234**	**212**
Arab Monetary Fund	212	180	249	212	212	212	212	212	212	212
Asian Infrastructure Investment Bank	0	0	0	100	94	50	53	53	0	0
EBRD	0	0	0	0	0	0	0	0	0	0
Islamic Development Bank	40	13	13	0	0	0	0	0	0	0
World Bank	810	414	403	430	511	354	219	183	22	0
Bilateral	**410**	**917**	**699**	**1,227**	**1,153**	**611**	**559**	**398**	**361**	**248**
Canada	0	0	0	15	15	30	45	0	0	0
EU	113	302	298	553	548	0	0	0	0	0
France	16	122	113	200	217	80	93	124	124	124
Germany	181	181	88	185	183	185	93	124	124	124
Italy	0	37	0	25	38	67	50	37	0	0
Japan	100	200	200	100	100	100	100	0	0	0
Kuwait	0	50	0	100	51	113	113	113	113	0
Saudi Arabia	0	0	-25	25	-24	35	66	0	0	0
UAE	0	25	25	25	25	0	0	0	0	0
IMF purchases	**0**	**687**	**690**	**412**	**557**	**400**	**201**	**101**	**0**	**0**
Eurobond issuance	**0**	**1,750**	**1,750**	**0**	**500**	**1,000**	**0**	**0**	**1,000**	**1,000**
Guaranted	0	0	0	0	0	0	0	0	0	0
Non-guaranteed	0	1,750	1,750	0	500	1,000	0	0	1,000	1,000

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 2023-25 expected disbursements under new MOUs.

Table 4a. Jordan: Monetary Survey, 2019–26

	2019	2020		2021		2022	2023	2024	2025	2026
		1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Stocks, in millions of Jordanian dinars)									
Net foreign assets	7,513	7,063	7,528	7,216	7,715	8,395	9,601	10,945	11,919	12,863
Central bank	9,981	10,028	10,765	10,038	10,455	10,922	11,916	13,047	14,021	14,965
Commercial banks	-2,468	-2,964	-3,237	-2,822	-2,740	-2,528	-2,315	-2,102	-2,102	-2,102
Net domestic assets	27,455	28,832	29,479	29,907	30,633	31,775	32,850	34,003	35,673	37,529
Net claims on general government	11,900	12,700	12,990	13,164	13,316	13,803	14,129	14,158	14,300	14,450
Net claims on central budgetary government 1/	9,225	9,591	10,277	9,705	10,254	10,610	10,827	10,776	10,850	10,957
Net claims on NEPCO	2,120	2,285	2,217	2,636	2,566	2,697	2,807	2,887	2,954	2,998
Net claims on other own budget agencies 2/	-246	-32	-370	-32	-370	-370	-370	-370	-370	-370
Claims on other public entities	801	856	866	856	866	866	866	866	866	866
Claims on financial institutions	852	1,293	1,359	1,293	1,359	1,359	1,359	1,359	1,359	1,359
Claims on the private sector	24,700	26,081	26,262	26,692	27,119	28,350	29,699	31,473	33,627	35,982
Other items (net)	-9,997	-11,242	-11,132	-11,242	-11,162	-11,737	-12,337	-12,987	-13,612	-14,262
Broad money	34,968	35,895	37,007	37,122	38,347	40,170	42,451	44,948	47,592	50,392
Currency in circulation	4,631	5,963	5,939	5,685	6,116	6,407	6,707	7,034	7,376	7,735
Jordanian dinar deposits	24,100	23,885	24,848	25,150	25,785	27,180	28,953	30,900	32,776	34,765
Foreign currency deposits	6,237	6,046	6,219	6,288	6,446	6,584	6,791	7,014	7,440	7,892
	(Flows, in millions of Jordanian dinars)									
Net foreign assets	225	-449	16	152	186	680	1,207	1,344	974	944
Net domestic assets	1,388	1,377	2,024	1,075	1,154	1,143	1,074	1,154	1,670	1,856
Net claims on general government	996	690	1,091	464	326	487	326	29	142	150
Net claims on central budgetary government	1,111	367	1,053	114	-23	356	217	-51	75	106
Net claims on NEPCO	114	165	97	351	349	131	109	80	67	44
Net claims on other own budget agencies	-233	103	-124	0	0	0	0	0	0	0
Claims on financial institutions	229	441	507	0	0	0	0	0	0	0
Claims on the private sector	1,003	1,492	1,562	611	858	1,231	1,348	1,774	2,154	2,355
Other items (net)	-841	-1,245	-1,135	0	-30	-575	-600	-650	-625	-650
Broad money	1,612	927	2,039	1,227	1,340	1,823	2,281	2,497	2,644	2,800
Currency in circulation	335	1,332	1,308	-279	177	291	300	327	342	358
Jordanian dinar deposits	1,208	-215	748	1,265	937	1,395	1,773	1,947	1,876	1,990
Foreign currency deposits	69	-191	-17	241	227	138	207	223	426	452
Memorandum items:										
Year-on-year broad money growth (percent)	4.8	2.7	5.8	3.4	3.6	4.8	5.7	5.9	5.9	5.9
Year-on-year private sector credit growth (percent)	4.2	6.1	6.3	2.3	3.3	4.5	4.8	6.0	6.8	7.0
Foreign currency/total deposits (percent)	20.6	20.2	20.0	20.0	20.0	19.5	19.0	18.5	18.5	18.5
Private sector credit/total deposits (percent)	81.4	87.1	84.5	84.9	84.1	84.0	83.1	83.0	83.6	84.4
Currency in circulation/JD deposits (percent)	19.2	25.0	23.9	22.6	23.7	23.6	23.2	22.8	22.5	22.2
Money multiplier (for JD liquidity)	3.6	3.4	3.4	3.6	3.4	3.4	3.5	3.5	3.5	3.5
Velocity (GDP/M)	0.9	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8

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, 2019–26

	2019	2020		2021		2022	2023	2024	2025	2026
		1st Rev	Proj.	1st Rev	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Stocks, in millions of Jordanian dinars)									
Net foreign assets	9,981	10,028	10,765	10,038	10,455	10,922	11,916	13,047	14,021	14,965
Foreign assets	11,687	11,996	12,791	12,208	12,798	13,470	13,642	14,645	15,455	16,245
Of which: Bilateral accounts	767	766	767	766	767	767	767	767	767	767
Of which: encumbered due to forwards or swaps	643	649	627	649	627	627	627	627	627	627
Foreign liabilities	1,706	1,968	2,026	2,170	2,343	2,548	1,726	1,598	1,434	1,280
Of which: Net Fund Position	358	706	737	986	1,118	1,384	1,423	1,295	1,131	977
Of which: GCC grants-related	1,240	1,154	1,181	1,077	1,117	1,055	195	195	195	195
Net domestic assets	-1,897	-1,170	-1,617	-1,473	-1,018	-1,132	-1,758	-2,241	-2,583	-2,858
Net claims on central budgetary government 1/	688	875	1,163	1,086	1,507	1,770	1,815	1,703	1,556	1,382
Net claims on own budget agencies and other public entities	-124	-217	-103	-217	-103	-103	-103	-103	-103	-103
Net claims on financial institutions	452	767	766	767	766	766	766	766	766	766
Net claims on private sector	23	23	23	23	23	23	23	23	23	23
Net claims on commercial banks	-2,131	-1,720	-2,786	-1,535	-2,176	-2,252	-2,924	-3,395	-3,790	-3,891
Of which: FX deposits of commercial banks	760	682	737	682	737	737	737	737	737	737
CDs	-500	0	0	-500	-200	-500	-500	-400	-200	-200
Other items, net (asset: +)	-258	-898	-681	-1,098	-836	-836	-836	-836	-836	-836
Jordanian dinar reserve money	8,083	8,857	9,148	8,565	9,437	9,791	10,158	10,806	11,438	12,107
Currency	5,162	6,494	6,497	6,216	6,673	6,964	7,264	7,591	7,934	8,292
Commercial bank reserves	2,921	2,363	2,652	2,349	2,764	2,827	2,894	3,215	3,504	3,815
Of which: required reserves	1,654	1,233	1,222	1,298	1,268	1,336	1,423	1,519	1,611	1,709
	(Flows, in millions of Jordanian dinars)									
Net foreign assets	883	47	784	10	-310	468	994	1,131	974	944
Foreign assets	635	309	1,105	212	7	672	172	1,003	810	790
Foreign liabilities	-249	262	320	202	317	204	-822	-128	-163	-154
Net domestic assets	-72	727	280	-302	599	-114	-626	-483	-342	-275
Net claims on central budgetary government	-98	187	475	212	344	263	45	-112	-147	-174
Net claims on commercial banks	-122	411	-655	186	610	-77	-671	-471	-395	-101
Other items, net (asset: +)	-99	-639	-422	-200	-155	0	0	0	0	0
Jordanian dinar reserve money	812	774	1,065	-292	289	354	367	648	632	669
Currency	360	1,332	1,335	-279	177	291	300	327	342	358
Commercial banks' reserves	452	-559	-270	-13	112	63	67	321	290	311
Memorandum items:										
Gross international reserves ($ millions)	15,401	15,838	16,960	16,138	16,969	17,917	18,160	19,574	20,717	21,831
Gross usable international reserves ($ millions)	13,512	14,051	15,127	14,351	15,137	16,084	16,327	17,741	18,884	19,999
As a ratio to JD broad money (in percent)	33	33	35	33	34	34	32	33	33	33
As a ratio of JD reserve money (in percent)	119	112	117	119	114	116	114	116	117	117
Net international reserves (millions of JD)	9,050	9,085	9,815	9,018	9,441	9,847	9,980	11,111	12,085	13,029
Net international reserves (millions of U.S. dollars)	12,765	12,814	13,844	12,719	13,316	13,888	14,076	15,671	17,045	18,376
Money multiplier (for JD liquidity)	3.6	3.4	3.4	3.6	3.4	3.4	3.5	3.5	3.5	3.5

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

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

Table 5. Jordan: Access and Phasing Under the Extended Fund Facility Arrangement

Review	Availability Date	Action	Purchase	
			SDR Million	Percent of Quota 1/
	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	144.102	42.0
Third Review	September 30, 2021	Observance of end-June 2021 performance criteria, completion of third review	144.102	42.0
Fourth Review	March 30, 2022	Observance of end-December 2021 performance criteria, completion of fourth review	113.223	33.0
Fifth Review	September 30, 2022	Observance of end-June 2022 performance criteria, completion of fifth review	113.223	33.0
Sixth Review	March 30, 2023	Observance of end-December 2022 performance criteria, completion of sixth review	68.620	20.0
Seventh Review	September 30, 2023	Observance of end-June 2023 performance criteria, completion of seventh review	68.620	20.0
Eighth Review	March 15, 2024	Observance of end-December 2023 performance criteria, completion of eighth review	68.620	20.0
Total			**926.370**	**270.0**

Source: IMF staff estimates.
1/ Jordan's quota is SDR 343.1 million.

II. Proposal

Review	Availability Date	Action	Purchase	
			SDR Million	Percent of Quota 1/
	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	144.102	42.0
Third Review	September 30, 2021	Observance of end-June 2021 performance criteria, completion of third review	240.170	70.0
Fourth Review	March 30, 2022	Observance of end-December 2021 performance criteria, completion of fourth review	137.240	40.0
Fifth Review	September 30, 2022	Observance of end-June 2022 performance criteria, completion of fifth review	137.240	40.0
Sixth Review	March 30, 2023	Observance of end-December 2022 performance criteria, completion of sixth review	68.620	20.0
Seventh Review	September 30, 2023	Observance of end-June 2023 performance criteria, completion of seventh review	68.620	20.0
Eighth Review	March 15, 2024	Observance of end-December 2023 performance criteria, completion of eighth review	68.620	20.0
Total			**1070.472**	**312.0**

Source: IMF staff estimates.
1/ Jordan's quota is SDR 343.1 million.

Table 6. Jordan: Indicators of Fund Credit, 2019–34

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
		Prel							Projections							
Existing and prospective Fund arrangements																
								(SDR million)								
Disbursements	120.1	497.4	384.3	274.5	137.2	68.6	0	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit 1/	365.1	720.4	1,091.8	1,349.2	1,386.4	1,263.5	1,107.1	960.1	786.0	593.3	404.8	235.0	102.9	34.3	5.7	0
Obligations to the Fund 2/	310.3	151.0	25.9	41.8	130.2	221.8	183.9	171.2	191.9	203.2	194.1	173.6	134.2	69.5	28.9	5.8
Principal (repayments/repurchases)	298.4	142.1	12.9	17.2	100.1	191.5	156.4	147.0	174.1	192.7	188.4	169.8	132.1	68.6	28.6	5.7
Charges and interest 3/	11.9	9.0	13.1	24.6	30.1	30.3	27.5	24.2	17.8	10.5	5.7	3.8	2.1	0.9	0.3	0.1
								(Percent)								
Stock of existing and prospective Fund credit 1/ 4/																
In percent of quota	106.4	210.0	318.2	393.2	404.1	368.2	322.7	279.8	229.1	172.9	118.0	68.5	30.0	10.0	1.7	0.0
In percent of GDP	1.1	2.4	3.3	3.9	3.8	3.3	2.7	2.2	1.7	1.2	0.8	0.4	0.2	0.1	0.0	0.0
In percent of exports of goods and services	3.1	10.0	12.1	11.1	10.5	8.9	7.4	6.1	4.7	3.3	2.2	1.2	0.5	0.2	0.0	0.0
In percent of gross usable reserves	3.7	6.8	9.9	11.5	11.7	9.8	8.0	6.6	5.1	3.6	2.3	1.3	0.5	0.2	0.0	0.0
In percent of government revenue	4.7	10.5	13.3	15.4	15.0	12.8	10.6	8.8	6.9	5.0	3.2	1.8	0.7	0.2	0.0	0.0
In percent of total external debt	1.7	3.0	4.2	5.0	5.0	4.5	3.9	3.4	2.7	2.1	1.4	0.8	0.4	0.1	0.0	0.0
Obligations to the Fund (repurchases and charges) 4/																
In percent of quota	90.4	44.0	7.6	12.2	37.9	64.6	53.6	49.9	55.9	59.2	56.6	50.6	39.1	20.3	8.4	1.7
In percent of GDP	1.0	0.5	0.1	0.1	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.3	0.2	0.1	0.0	0.0
In percent of exports of goods and services	2.6	2.0	0.3	0.3	1.0	1.6	1.2	1.1	1.1	1.1	1.0	0.9	0.6	0.3	0.1	0.0
In percent of gross usable reserves	3.2	1.4	0.2	0.4	1.1	1.7	1.3	1.2	1.2	1.2	1.1	0.9	0.7	0.3	0.1	0.0
In percent of government revenue	4.0	2.1	0.3	0.5	1.4	2.2	1.8	1.6	1.7	1.7	1.5	1.3	1.0	0.5	0.2	0.0
In percent of total external debt service	10.2	5.1	1.2	1.4	5.5	9.0	5.5	5.2	5.9	8.6	6.8	4.7	4.1	1.9	1.0	0.2
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
Gross domestic product, baseline (USD million)	44,566	43,759	45,344	47,499	50,196	53,149	56,276	59,586	63,091	66,802	70,732	74,893	79,298	83,963	88,902	94,132
Exports of goods and services (USD million)	16,193	10,380	12,343	16,672	18,099	19,439	20,592	21,781	23,055	24,372	25,744	27,208	28,770	30,437	32,218	34,120
Gross usable reserves (USD million)	13,512	15,127	15,137	16,084	16,327	17,741	18,884	19,999	21,179	22,429	23,752	25,154	26,638	28,210	29,874	31,637
Government revenue (USD million)	10,828	9,914	11,243	12,024	12,646	13,583	14,360	15,025	15,720	16,447	17,208	18,005	18,838	19,709	20,621	21,575
External debt service (USD million)	4,221	4,114	3,110	4,254	3,478	3,622	4,900	4,910	4,847	3,509	4,206	5,450	4,888	5,396	4,414	4,461
Total external debt (USD million)	30,306	34,301	37,685	39,360	40,764	41,708	42,100	42,334	42,481	42,540	42,415	41,102	40,391	39,181	38,978	38,785

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 1.05 (as of May 13, 2021)

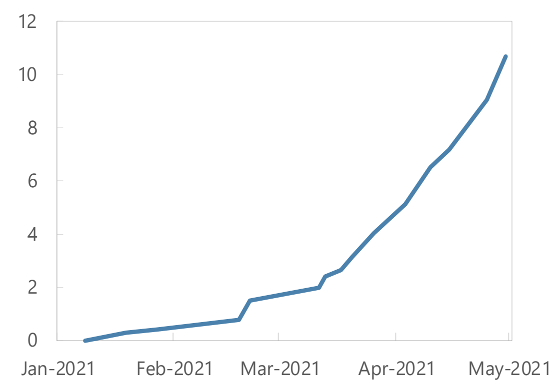
4/ Using the end-2020:Q1 forecast of the SDR/USD rate in 2021-2034 forecasts.

Annex I. Jordan's Vaccination Plans

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

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

Vaccinations Administered
(cumulative, per hundred people)

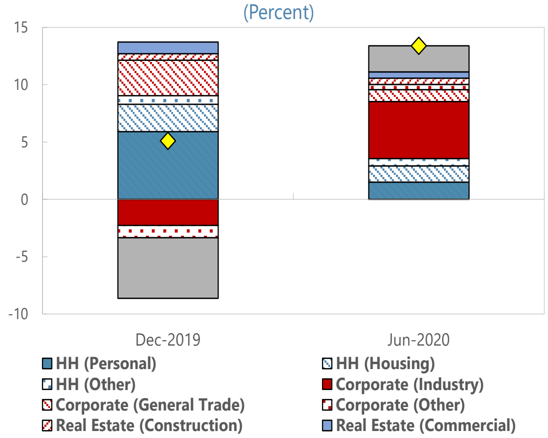


Sources: "Coronavirus Pandemic (COVID-19)". Published online at OurWorldInData.org.

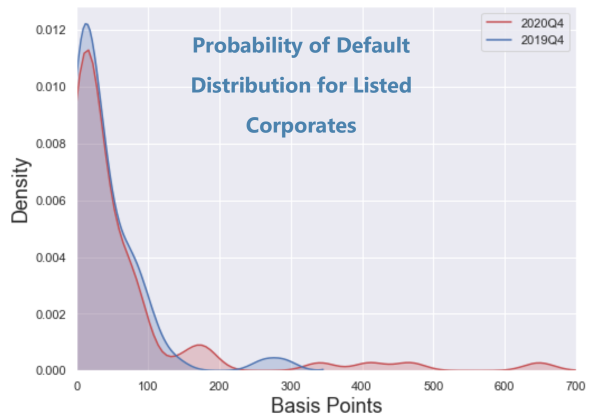
Annex II. Corporate Sector Vulnerabilities

1. The corporate sector accounted for nearly half the NPL growth as of June 2020 and this share is expected to be larger at end-year when pandemic-related incorporate solvencies start to further materialize. Analysis of the default probabilities of 69 listed firms suggests that the outlook for a majority of firms is stable, however a minority of high risk firms have seen sharp rises in default risk. A careful analysis of corporate sector vulnerabilities is necessary to prepare for, and mitigate, their impact on the banking sector and financial stability.

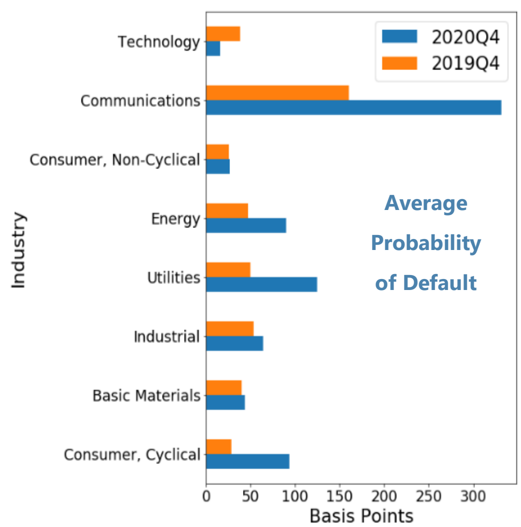
Contributions to NPLs by Sector
(Percent)



Sources: Jordanian authorities; and IMF staff calculations.



2. Mean probabilities of default (PD) rose in listed corporates in 2020Q4 relative to 2019Q4 with an average increase of 21 bps.[1] While default probabilities remained stable for a majority of firms, remaining at investment grade levels below 100 bps, an increase in tail risks for high risk firms drove the increase (see probability of default density). Half of the mean increase is driven by two firms in the consumer sectors whose PDs rose from 138 bps (B+) to 410 (B); and 86 (BB) to 467 (B), respectively. An example of a firm in a sector facing headwinds prior to the COVID-19 crisis is a newspaper and printing business (in the communications sector) whose PD rose from 291 to



[1] Probabilities of default are taken from the Credit Research Institute (CRI) of the National University of Singapore. We use average probability over the quarter. Default probabilities are mapped into corresponding to the credit ratings of S&P e.g., a probability of default of 1.5% or 150 basis points would get a B rating. Default probabilities are calculated by CRI using the model of Doan and others (2012).

648 (B to B-), and a Cement production company whose PD rose from 262 to 341 (remained within B).

3. Risks rose notably in the Communications, Energy, Utilities and, especially, the consumer cyclical sectors. Consumer cyclical includes a wide range of subsectors,[2] with the majority of firms' PDs remaining relatively stable however large deteriorations in the aviation and electronics firms noted above drove the average.

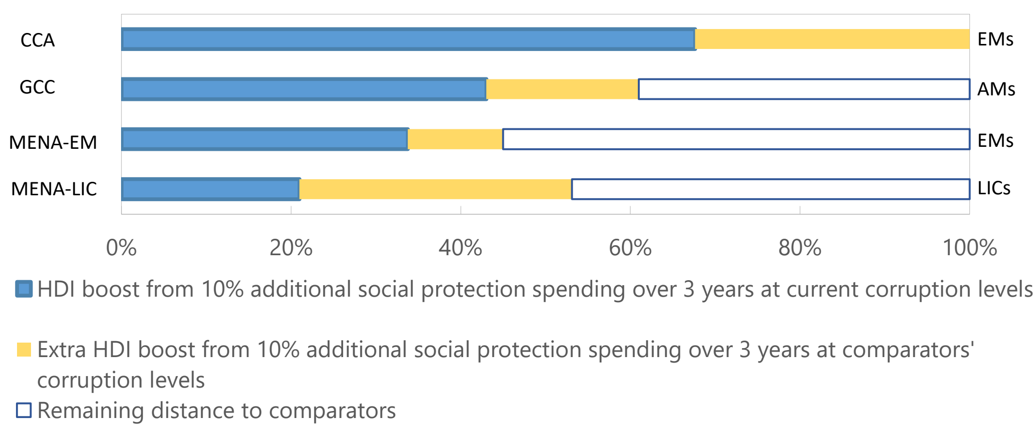
4. Risks rose across all sectors except technology. This may be linked to the shift toward working from home during the pandemic.

[2] Airlines, Apparel, Auto Manufacturers, Auto Parts& Equipment, Distribution/Wholesale, Entertainment, Food Service, Home Builders, Home Furnishings, Housewares, Leisure Time, Lodging, Office Furnishings, Retail, Storage/Warehousing, Textiles and Toys/Games/Hobbies.

Annex III. Protecting the Vulnerable Under the EFF Program

1. **Social spending is key to improving socioeconomic indicators and promoting inclusive growth.** Public spending on health, education, and social protection has been linked to higher growth, lower poverty and inequality, and improved socioeconomic outcomes. For example, the recent IMF departmental paper "Social Spending for Inclusive Growth in the Middle East and Central Asia" finds that a 10 percent increase in public social protection spending per capita (if sustained for 3 years) can close 20–40 percent of the Human Development Index (HDI) gap between MENAP countries and their comparators, and up to 45–60 percent of the gap could be closed if this increase in social spending is accompanied by better governance.

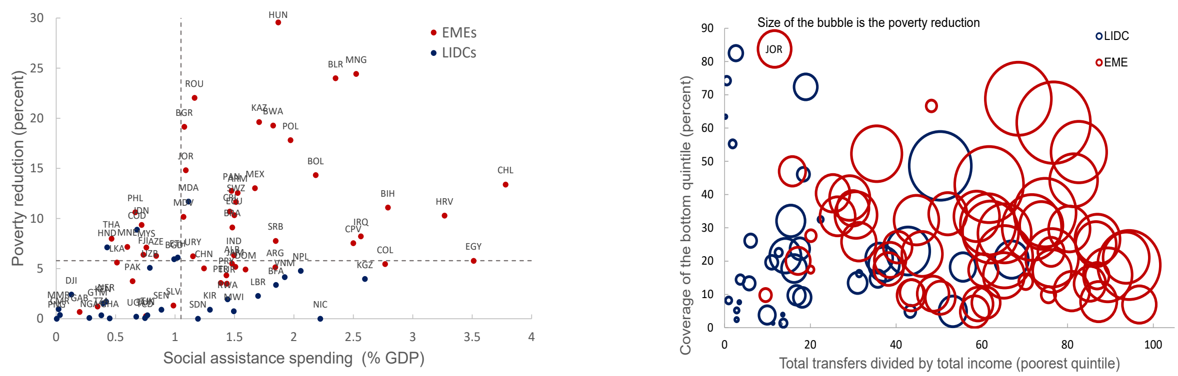
Estimated Boost to HDI from Additional Social Protection Spending and Improved Governance
(2018 or latest available)



Source: IMF Departmental Paper No. 2020/012, "Social Spending for Inclusive Growth in the Middle East and Central Asia."

2. **While Jordan's social safety net is relatively efficient in reaching its poorest citizens, the level of spending on social protection lags global peers.** NAF has improved coverage and the bottom quintile of citizens is relatively well captured in the social safety net, making Jordan one of the most efficient emerging market countries in its social protection spending. The poorly directed bread subsidy has been replaced with better targeted cash transfers this year. However, the budget allocation for social assistance has been historically low compared to regional and global peers, raising the question of adequacy. Furthermore, NAF does not cover refugees, who instead have to rely on NGOs and international charities to provide assistance.

Social Assistance Spending and Coverage in Jordan



Source: IMF Fiscal Monitor, Chapter "A Fair Shot," and IMF staff calculations.

3. **Protecting the poor and the most vulnerable is a top priority of the EFF program.** From its inception, the EFF program has included a "floor" on social spending, i.e., a minimum level of spending on education and health, social protection programs of NAF and other entities, and a school feeding program. This is to ensure that any necessary fiscal consolidation to preserve debt sustainability does not burden the poor, but rather promotes equity, and protects Jordan's future growth potential. Furthermore, the fiscal strategy is anchored in equitable tax reforms, aimed at closing tax loopholes that the better-off as well as large companies exploit. The authorities' anti-tax evasion campaign also targets the wealthiest to ensure that they pay their fair share, and creates fiscal space for higher social protection spending.

4. **The COVID-19 crisis has exacerbated the challenge of maintaining an adequate social safety net.** Lockdowns and travel restrictions have significantly affected job-rich services sectors, with women, youth, refugees, and informal sector workers hit particularly hard. Women have suffered a double hit. More women work in the informal sector, complicating their ability to claim unemployment benefits or access social protection schemes. The disproportionate burden of childcare and eldercare on women even in normal times has been further magnified by the pandemic, as schools closed, and family members got ill.

5. **The fiscal targets and adjustors have been significantly relaxed to help the authorities meet this challenge.** To prevent permanent adverse effects of the crisis on inclusive growth indicators, the program has (i) accommodated a 2 percent of GDP year on year expansion in the primary deficit (excluding grants) in 2020; (ii) reduced the pace of fiscal consolidation for 2021 by 0.6 percent of GDP relative to the first review; (ii) increased the floor on social spending; (iii) included an adjustor (of up to 0.5 percent of GDP, each for 2020 and 2021) for higher-than-expected spending on COVID-related health and security needs; (iv) allowed up to 0.5 percent of GDP on additional social protection spending if financed by additional grants; and (v) modified the program's original grants adjustors to accommodate higher spending in the event of both an over- or under-performance of grants. In addition to the emergency financing provided to Jordan

under the IMF's Rapid Financing, disbursements under the EFF have been front loaded and staff is currently proposing that the program be also augmented to further help Jordan weather the crisis.

6. The authorities have taken several measures to lessen the pain of the pandemic on the most vulnerable. While the pandemic is still unfolding, the Jordanian authorities showed alacrity in mobilizing and deploying additional resources for health and social protection. The authorities increased cash transfers for the unemployed and self-employed through the Takaful 3 program, provided in-kind transfers to the poor, encouraged firms to retain workers through Istidamah program, and imposed caps on private sector salary reductions. They also found more innovative ways to administer payments through greater use of e-wallets.

7. In particular, the March 31 fiscal stimulus package seeks to significantly expand the social safety net and support the unemployed. Direct social protection measures include: (i) JD 50 million for Takaful 3 program to expand coverage to an additional 60,000 families, (ii) JD 10 million for food coupon program targeting 285,000 families. To address rising unemployment, it includes: (i) JD 75 million for Istidamah program (partially financed by the SSC) to protect 100,000 jobs in the private sector; (ii) JD 10 million for a 6-month employment program for 6,000 people in the agriculture sector; (iii) JD 11 million for a 8-month employment program for 4500 people to maintain and clean tourist sites; (iv) JD 20 million for wage-sharing program in the ICT and start-up sectors targeting youth; and (v) JD 10 million for 4000 temporary jobs to help with the COVID-19 campaign. These programs will ensure subsistence for the neediest and vulnerable and will help to retain workers in the labor market.

8. Creating fiscal space for social spending should remain a priority as the current crisis abates. The envisaged pace and composition of Jordan's fiscal consolidation seeks to ensure that Jordan has enough fiscal space to undertake adequate investment in human capital, and to do so efficiently. To prevent a deterioration in socioeconomic indicators, Jordan's response to the crisis should continue to proactively target vulnerable groups, including women, informal sector workers, and refugees. Innovative approaches adopted by Jordan in administering social protection benefits should continue post-COVID to fully capitalize on the benefits that digital solutions can offer in terms of spending efficiency and inclusion.

Annex IV. Details on Recent Fiscal Developments

1. **Fiscal balances have weakened in 2020 due to the revenue loss and additional spending needs associated with the crisis.** Domestic revenues declined by 9.4 percent relative to 2019, led by a COVID-related collapse in nontax revenues. The deterioration in revenues would have been even larger, if not for the carryover effects from the 2018 income tax law; anti-smuggling measures for tobacco products; reduction of sales tax and customs exemptions; and robust anti-tax evasion campaign. Total expenditures remained broadly flat, as increases in spending on health and social protection, and the interest bill, were offset by lower capital expenditure. The public wage bill was in line with the 2020 budget, as savings from delaying public sector salary increases and bonuses to end-2020, and imposing hiring freezes on new positions, were channeled to hire additional medical personnel to manage the second wave of infections.

Fiscal Accounts in 2020—Expected Versus Actual

	1st Review		Actual		Difference	
	JD bil.	% GDP	JD bil.	% GDP	JD bil.	% GDP
Total revenue and grants	7.3	23.8	7.0	22.7	-0.3	-1.2
Tax revenue, *of which* :	4.9	16.0	5.0	16.0	0.1	0.0
Taxes on income and profits	1.1	3.6	1.1	3.6	0.0	-0.1
Sales taxes	3.5	11.3	3.5	11.4	0.1	0.0
Nontax revenue	1.3	4.4	1.3	4.1	-0.1	-0.2
Grants	1.1	3.5	0.8	2.5	-0.3	-0.9
Current expenditure, *of which:*	8.3	27.2	8.4	27.2	0.1	0.0
Wages and salaries	1.5	4.8	1.7	5.4	0.2	0.6
Transfers	2.5	8.3	2.4	7.8	-0.1	-0.5
Goods and services	0.3	1.1	0.4	1.3	0.1	0.2
Capital expenditure	1.0	3.1	0.8	2.7	-0.1	-0.5
Overall central government balance	-2.1	-6.7	-2.3	-7.3	-0.2	-0.6
Primary government balance, excl. grants and transfers to utilities	-1.8	-6.0	-1.8	-5.7	0.1	0.3
NEPCO operating balance	0.0	-0.2	-0.1	-0.3	0.0	-0.1
WAJ overall balance, excl. grants	-0.3	-1.1	-0.3	-1.0	0.0	0.1
Water companies overall balance	-0.1	-0.5	-0.1	-0.4	0.0	0.0
Combined public balance	-2.4	-7.7	-2.3	-7.4	0.1	0.4
Government debt (net of SSC holdings)	27.3	89.2	27.3	88.0	0.0	-1.2

Source: IMF staff projections.

2. **The authorities met the end-December QPCs, and all but one March ITs.** Revenues (including grants) were 1.2 percent of GDP lower than expected at the time of the first review, of which 0.2 percent of GDP was due to weaker non-tax revenues, and 0.9 percent of GDP due to grant shortfalls (mainly expected to be COVID-related delays that will be recouped over 2021 and the

medium term).[1] This was partly offset by a 0.5 percent of GDP under-execution of capital expenditure. Despite a 0.8 percent of GDP higher headline primary deficit (i.e., including grants), public debt, at 88 percent of GDP, was 1.2 percent of GDP lower than programmed due to lower-than-expected output contraction and higher-than-expected SSC purchases of central government debt. Taking account of program adjustors, the authorities met the adjusted end-December QPCs[2] on the primary central government and the combined public deficits, as well as the indicative targets on debt stock and SSC net financing to the government. They also met March 2021 ITs for primary central government deficit and combined public deficit, social spending, and SSC net financing, but missed the IT on public debt stock.

3. A draft budget law for 2021 consistent with a programmed primary deficit of JD 1,180 million (3.7 percent of GDP) was approved by parliament in February. The budget is based on revenue forecast of JD 7,298 million and current and capital expenditure numbers of JD 8,749 million and JD 1,181 million respectively. The budget is backed by high quality tax policy measures that the authorities are steadily implementing and seeks to prioritize critical social protection and infrastructure spending. The authorities are planning to issue a supplemental budget to reflect 0.6 ppts of GDP in fiscal target relaxation that would be used to finance the recently announced stimulus package.

[1] The shortfall in grants had three elements: (i) US$100m lower disbursement of GCC grants driven by pandemic related lockdowns hindering CAPEX; (ii) US$100m delays due to completion of documentation relating to the Mecca pledge; and (iii) a US$220m delay in a grant relating to reimbursement of medical treatments from the UAE.

[2] The ceiling on primary central government fiscal deficit is adjusted downward by JD 205 million (75 percent of the JD 244 million shortfall in grants) and upward by JD 99 million spent on unbudgeted COVID-related spending (see paragraphs 26–27, 30 of the TMU).

Annex V. Public and External Debt Sustainability Analysis[1]

Although risks to debt sustainability have increased, Jordan's public debt is assessed as sustainable with continued strong policy implementation. This assessment reflects a baseline which assumes that the COVID-19 pandemic will dissipate by the second half of the year, the authorities remain committed to the revised fiscal consolidation path under the program, and committed donor and planned market financing come through. Public debt, defined in this DSA as the consolidated gross direct and guaranteed debt of the central government, NEPCO, WAJ, water distribution companies, and the state-owned Social Security Corporation, is now projected to reach 91 percent of GDP in 2021, and to decline to below 80 percent of GDP by 2025. Risks to debt sustainability arise from COVID-induced scarring, the possibility of further adverse shocks to growth and/or financing conditions, slippages in fiscal consolidation, escalation of political risks in the region, or materialization of contingent liabilities from the broader public sector. These risks are mitigated by continued external market access and a favorable debt structure, with long maturities and substantial current and committed concessional financing. External debt is sustainable as long as the peg stands.

A. Public Sector DSA

1. **Public debt increased sharply in 2020 due to the COVID crisis but should be on a firmly downward trajectory after 2021 with strong policy implementation**. Public debt, defined in this DSA as the consolidated gross direct and guaranteed debt of the central government, NEPCO, WAJ, water distribution companies, and the state-owned Social Security Corporation (SSC), reached 88 percent of GDP at end-2020, is projected to peak at 91 percent of GDP in 2021, and should decline thereafter to below 80 percent of GDP by 2025, consistent with the First Review projection. The impact of the COVID shock on public finances in 2020, somewhat higher deficits going forward, and weaker economic growth contribute to the higher debt to GDP. Nonetheless, given the temporary nature of the shock, the authorities' intention to restart fiscal consolidation this year and implement structural reforms to raise growth potential, and continued investment by the SSC in government debt - should put the debt to GDP on a firmly downward trajectory after 2021.

2. **Pressures have also increased outside the central government sector.** Staff considers that the issuance of "comfort letters" by the Ministry of Finance to a commercial bank that enable Royal Jordanian to borrow up to JD50 million amounts to a government guarantee, which increases the debt stock. The SSC's net income has deteriorated by about 15 percent in 2020 compared to 2019, as social security contributions were reduced for all companies, the economy has contracted, investment income has dropped (especially on equities), and payouts have increased. However, the drop in net income was smaller than the 50 percent expected at the time of the first review.

3. **The structure of public debt remains favorable.** Foreign-currency denominated debt is half of total public debt. The non-resident share of debt is relatively high, but the risk around it are

[1] The DSA is done under the assumption that NEPCO will fully honor its contractual obligations with respect to the most significant oil shale PPA. Potential resolution of the oil shale PPA presents an upside to the DSA.

mitigated by a long maturity of external public debt, with issuance typically in tenors exceeding five years. Moreover, a large part of the foreign-currency debt is held by official, rather than private, creditors, a pattern that will continue, given official sector pledges made as part of the Jordan Compact and the 2019 London Initiative. On the domestic side, Jordan has notably lengthened maturities in recent years: excluding treasury bills, the average maturity has almost doubled to six years since 2018.

4. **The authorities are considering liability management operations to reduce debt service costs and smooth out the amortization profile.** The authorities have requested MCM TA on conducting liability management operations to buy-back more expensive Eurobond if international market conditions remain favorable. There also appears to be scope for partially replacing the stock of non-traditional debt instruments, e.g., "comfort letters", with Treasury bonds. "Comfort letters" are given to entities that are owed arrears (construction companies, cancer center, refinery, and municipalities) by government; and enable the entities to obtain loans from commercial banks. The letters imply a government obligation to repay what these entities owed over a period of 5 years plus the interest (4–5 percent) that the banks charge. Accordingly, staff records them as debt. At end-2020, these non-traditional debt instruments amounted to 2.5 percent of GDP. In 2021, the MOF is considering issuance of additional JD100 million in "comfort letters" to securitize health and energy arrears.

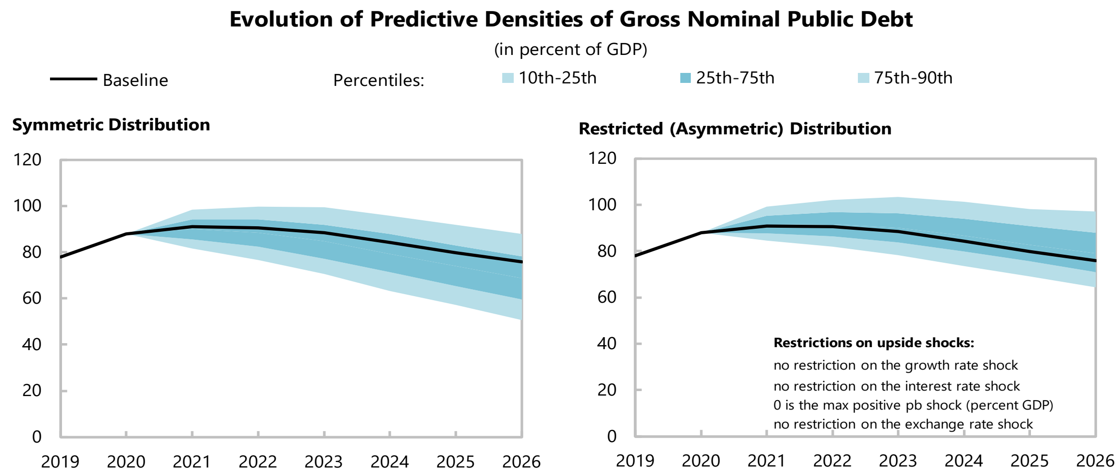
5. **Importantly, public gross financing needs (GFNs) seem manageable**. The stress tests show that GFNs are robust to shocks. This reflects significant projected concessional financing; little private external debt maturating during the program; and the pre-COVID domestic debt maturity extension. Moreover, Jordan has maintained external market confidence following the COVID shock (its $1.75 billion Eurobond issuance in June 2020 at very attractive rates was more than 6 times oversubscribed); and Jordanian banks are adequately capitalized, so can absorb higher government domestic debt issuance (recent domestic bond issuance has been significantly oversubscribed). The SSC's net income position is expected to return to more normal levels in 2021, as the recovery sets in. Moreover, government bonds at the end of 2020 accounted for about 57 percent of its investment portfolio, which implies that the SSC can scale up purchases of government bonds before the exposure cap becomes binding. Taken together, these suggest manageable risks to GFN financeability. Finally, GFNs are projected to decline over the medium term, in line with the continued shift to longer-term domestic issuance, and the envisaged fiscal consolidation under the EFF.

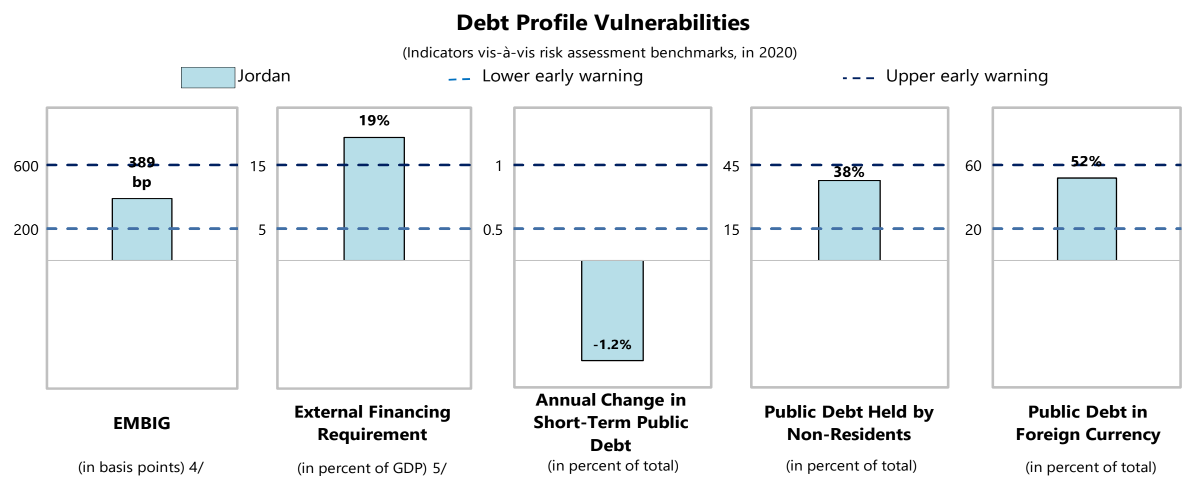
6. **There are significant risks to debt sustainability.** Although Jordan's debt and GFN profiles point to moderate risks overall, a longer lasting pandemic associated with deeper hysteresis effects; weaker fiscal consolidation effort; tightening of global liquidity conditions, or losses from SOEs and PPPs exceeding those already captured in the baseline debt projections; could pressure debt sustainability. This underlines the importance of initiating and maintaining momentum on growth-friendly fiscal consolidation once the pandemic abates; accelerating structural reforms to protect the recovery and boost potential growth, and mitigating losses from the broader public sector.

Figure AV.1. 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





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.

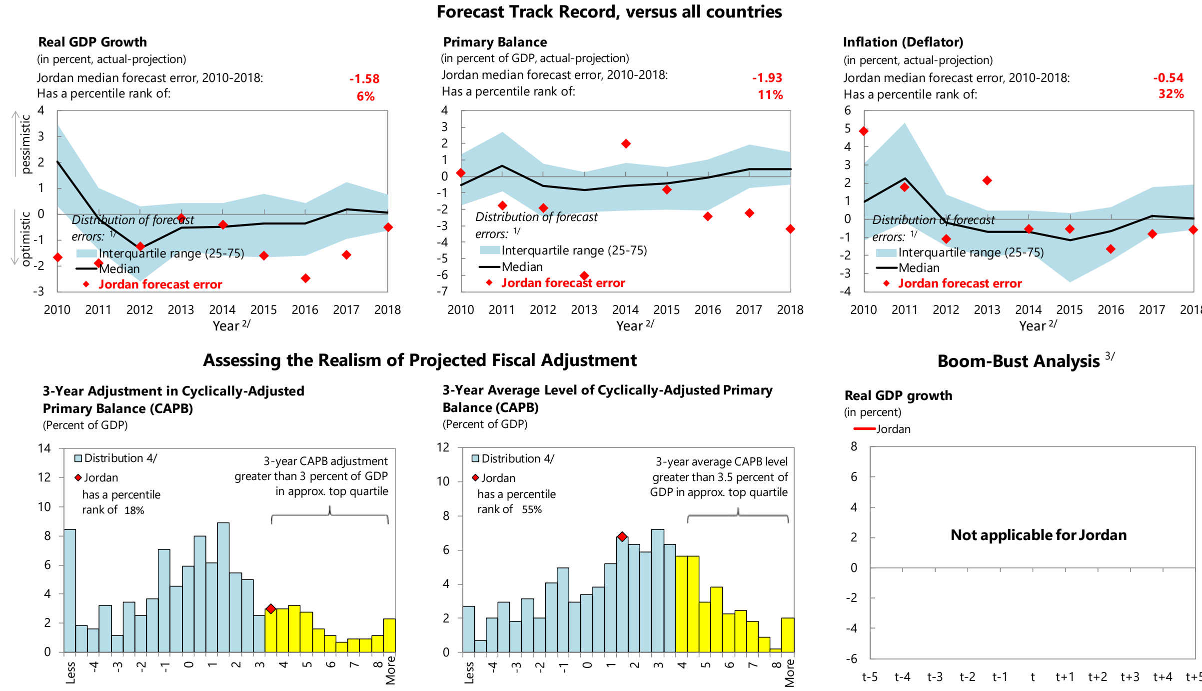
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 28-Jan-21 through 28-Apr-21.

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.

Figure AV.2. Jordan: Public DSA—Realism of Baseline Assumptions



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.

Figure AV.3. Jordan: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

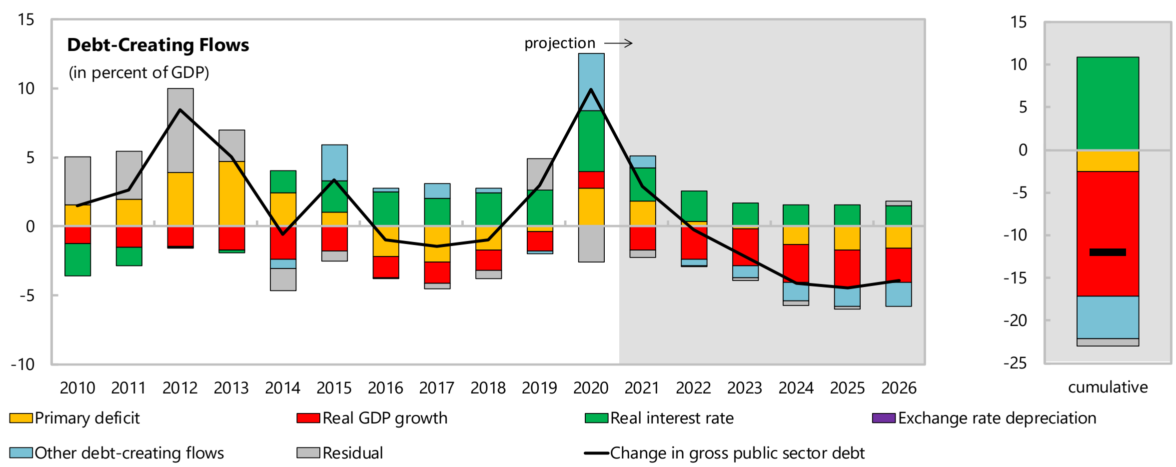
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2010-2018 [2]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	72.2	78.0	88.0	90.9	90.6	88.4	84.3	79.9	75.9
Of which: guarantees	10.4	9.9	9.8	10.1	10.3	10.6	10.5	10.1	8.3
Public gross financing needs	23.5	23.2	22.8	18.3	19.4	15.1	13.7	14.2	16.7
Real GDP growth (in percent)	2.4	2.0	-1.6	2.0	2.7	3.1	3.3	3.3	3.3
Inflation (GDP deflator, in percent)	3.9	1.7	-0.3	1.6	2.0	2.5	2.5	2.5	2.5
Nominal GDP growth (in percent)	6.4	3.7	-1.8	3.6	4.8	5.7	5.9	5.9	5.9
Effective interest rate (in percent) [4]	4.8	4.6	4.6	4.3	4.1	4.0	3.9	4.0	4.0

As of April 28, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		387
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	B+	B+
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [10]
Change in gross public sector debt	1.9	3.0	10.0	2.9	-0.3	-2.2	-4.1	-4.5	-3.9	-12.1	
Identified debt-creating flows	0.6	0.7	12.6	3.4	-0.2	-2.0	-3.8	-4.2	-4.3	-11.2	
Primary deficit	1.0	-0.3	2.8	1.9	0.4	-0.2	-1.3	-1.7	-1.6	-2.5	-2.7
Revenues and grants	33.8	36.3	33.6	36.2	36.7	36.4	36.7	36.6	36.2	218.8	
Primary expenditures	34.8	35.9	36.3	38.1	37.1	36.2	35.5	34.9	34.6	216.3	
Automatic debt dynamics [5]	-0.8	1.2	5.6	0.7	-0.2	-1.0	-1.2	-1.1	-1.0	-3.7	
Interest rate/growth differential [6]	-0.8	1.2	5.6	0.7	-0.2	-1.0	-1.2	-1.1	-1.0	-3.7	
Of which: real interest rate	0.8	2.7	4.4	2.4	2.2	1.7	1.6	1.6	1.5	10.9	
Of which: real GDP growth	-1.6	-1.4	1.2	-1.7	-2.3	-2.7	-2.8	-2.6	-2.5	-14.6	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.4	-0.2	4.1	0.9	-0.5	-0.9	-1.4	-1.4	-1.7	-5.0	
Privatization Receipts (negative)	-0.1	-0.2	0.0	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	0.0	4.1	0.9	-0.5	-0.9	-1.4	-1.4	-1.7	-5.0	
Residual, including asset changes [9]	1.3	2.3	-2.6	-0.5	0.0	-0.2	-0.3	-0.2	0.4	-0.8	



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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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.

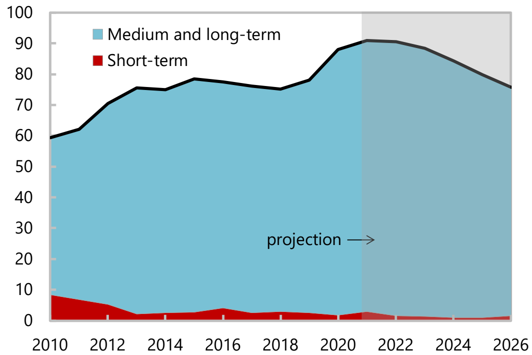
9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

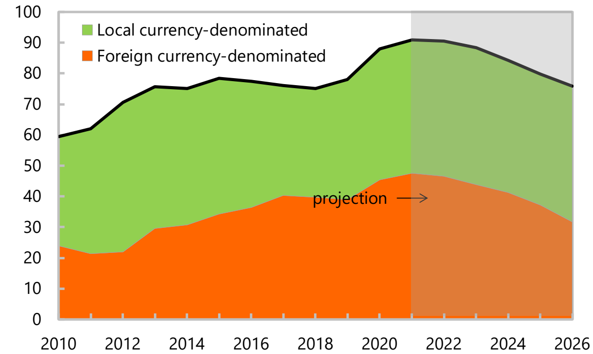
Figure AV.4. Jordan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



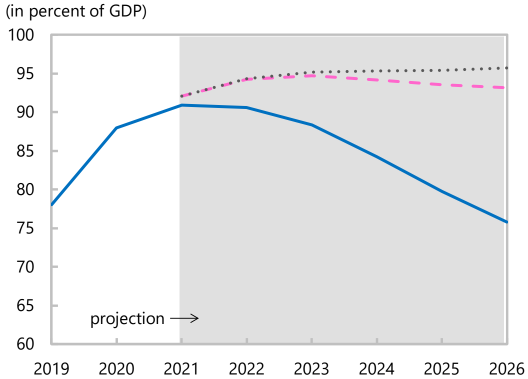
By Currency
(in percent of GDP)



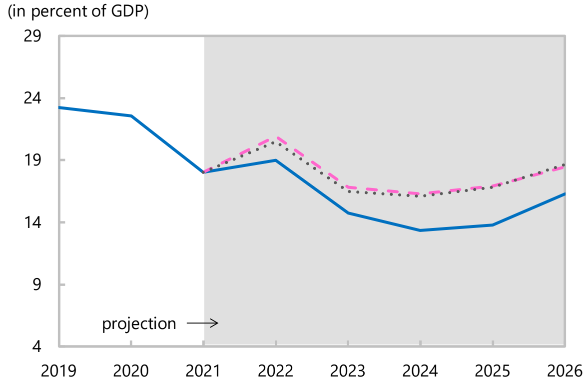
Alternative Scenarios

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)

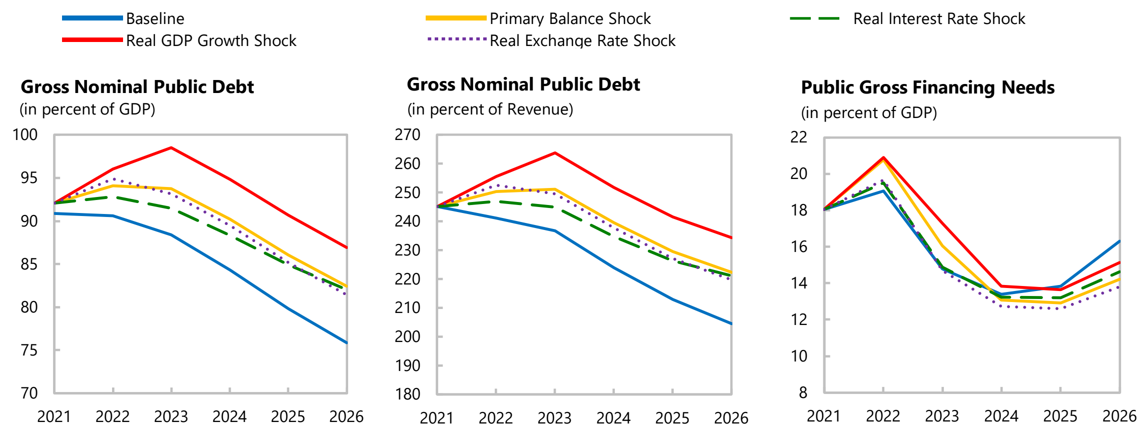
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.0	2.7	3.1	3.3	3.3	3.3
Inflation	1.6	2.0	2.5	2.5	2.5	2.5
Primary Balance	-1.6	-0.1	0.5	1.6	2.1	2.0
Effective interest rate	4.3	4.0	4.0	3.9	3.9	3.9
Constant Primary Balance Scenario						
Real GDP growth	2.0	2.7	3.1	3.3	3.3	3.3
Inflation	1.6	2.0	2.5	2.5	2.5	2.5
Primary Balance	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Effective interest rate	4.3	4.7	4.8	4.8	4.8	4.8

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.0	2.0	2.0	2.0	2.0	2.0
Inflation	1.6	2.0	2.5	2.5	2.5	2.5
Primary Balance	-1.6	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	4.3	4.7	4.9	4.9	5.0	5.0

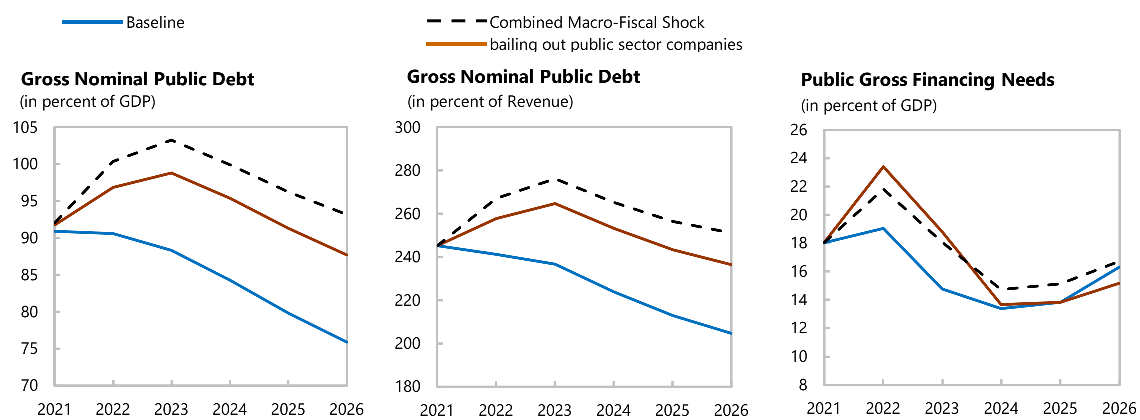
Source: IMF staff.

Figure AV.5. Jordan: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	2.0	2.7	3.1	3.3	3.3	3.3
Inflation	1.6	2.0	2.5	2.5	2.5	2.5
Primary balance	-1.6	-1.4	-0.8	1.6	2.1	1.9
Effective interest rate	4.3	4.7	4.9	5.0	5.1	5.1
Real Interest Rate Shock						
Real GDP growth	2.0	2.7	3.1	3.3	3.3	3.3
Inflation	1.6	2.0	2.5	2.5	2.5	2.5
Primary balance	-1.6	-0.1	0.5	1.6	2.1	1.9
Effective interest rate	4.3	4.7	5.2	5.5	6.0	6.1
Combined Shock						
Real GDP growth	2.0	0.7	1.1	3.3	3.3	3.3
Inflation	1.6	1.5	2.0	2.5	2.5	2.5
Primary balance	-1.6	-1.4	-1.3	1.6	2.1	1.9
Effective interest rate	4.3	4.9	5.2	5.5	5.9	6.1

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	2.0	0.7	1.1	3.3	3.3	3.3
Inflation	1.6	1.5	2.0	2.5	2.5	2.5
Primary balance	-1.6	-1.0	-1.3	1.6	2.1	1.9
Effective interest rate	4.3	4.7	4.9	5.0	5.1	5.1
Real Exchange Rate Shock						
Real GDP growth	2.0	2.7	3.1	3.3	3.3	3.3
Inflation	1.6	4.0	2.5	2.5	2.5	2.5
Primary balance	-1.6	-0.1	0.5	1.6	2.1	1.9
Effective interest rate	4.3	4.7	4.5	4.5	4.5	4.5

Source: IMF staff.

B. External Sector DSA

7. 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.

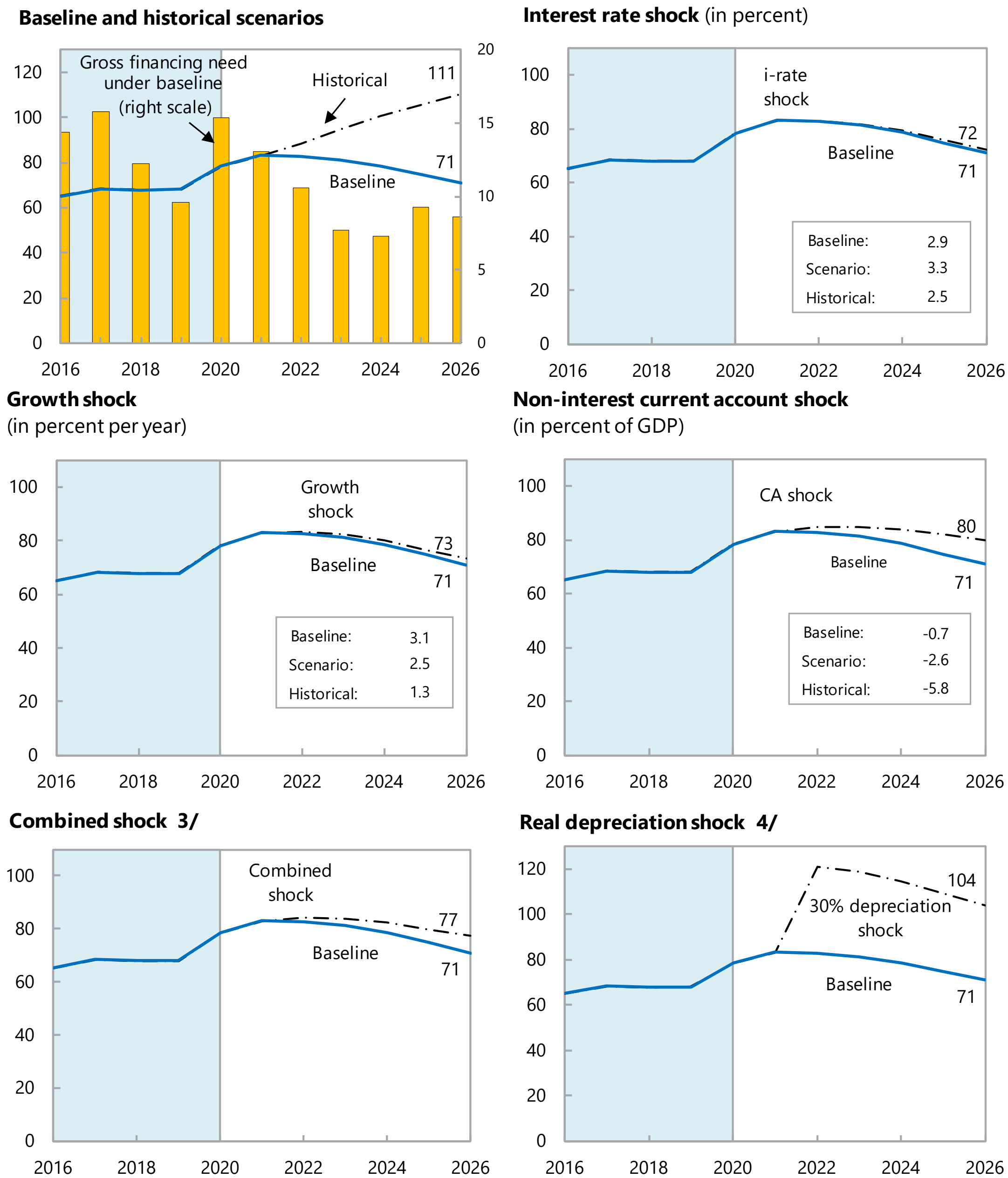
8. Jordan's public external debt remains moderate but is projected to grow slightly over the medium term. Public external debt is expected to rise from 40 percent of GDP in 2020 to 47 percent in 2022, reflecting higher external financing support in the wake of the COVID-19 pandemic, before falling back below 40 percent by 2026. 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.

9. Private external debt is expected to remain moderate in the 32–38 percent of GDP range. As of end-2019, 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 firms' external debt is expected to gradually increase from roughly a quarter to one third of total private external debt. 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.

10. External financing requirements would remain sizable through mid-program and gradually decline thereafter. The still elevated financing requirements reflect the post-COVID-19 widening of the current account deficit and its gradual correction, as well as amortizations of U.S. guaranteed Eurobonds falling due in 2022, which is assumed to be rolled-over on market terms prevailing at that time.

11. The external debt trajectory is relatively robust to shocks. Standardized stress-test scenarios suggest that the sensitivity of external debt 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 cushion against external shocks and anchor private expectations. A large and permanent real depreciation shock would bring the ratio of external debt to GDP well above the baseline projections. This underscores the importance of safeguarding the peg through prudent policies.

Figure AV.6. 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. Five-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the five-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 AV.1. Jordan: External Debt Sustainability Framework, 2016–26

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 7/
	28.8	29.2	31.3	33.0	38.2			37.8	36.4	35.2	34.0	32.8	31.6	
Baseline: External debt 1/	65.1	68.4	67.9	68.0	78.4			**83.1**	**82.9**	**81.2**	**78.5**	**74.8**	**71.0**	**-5.6**
Of which: Public and Publicly Guaranteed External Debt	36.3	39.2	36.6	35.0	40.2			45.3	46.5	46.0	44.5	42.1	39.5	
Change in external debt	1.2	3.3	-0.5	0.1	10.4			4.7	-0.2	-1.7	-2.7	-3.7	-3.8	
Identified external debt-creating flows (4+8+9)	3.7	3.3	2.2	-1.8	7.6			4.6	-1.0	-2.7	-3.7	-3.5	-3.5	
Current account deficit, excluding interest payments	8.6	9.3	5.0	0.1	6.0			6.2	1.6	0.8	0.4	0.6	0.4	
Deficit in balance of goods and services	20.8	21.1	18.2	13.0	17.9			17.2	11.8	10.0	8.8	8.2	7.5	
Exports	34.1	34.5	35.2	36.3	23.7			27.2	35.1	36.1	36.6	36.6	36.6	
Imports	54.8	55.6	53.4	49.4	41.7			44.4	46.9	46.1	45.4	44.8	44.1	
Net non-debt creating capital inflows (negative)	-3.9	-4.9	-2.2	-1.5	-1.6			-2.3	-2.8	-3.3	-3.8	-3.7	-3.7	
Automatic debt dynamics 2/	-1.1	-1.1	-0.5	-0.4	3.2			0.6	0.1	-0.2	-0.3	-0.3	-0.2	
Contribution from nominal interest rate	1.0	1.3	1.9	2.0	2.0			2.2	2.3	2.3	2.2	2.1	2.1	
Contribution from real GDP growth	-1.2	-1.3	-1.3	-1.3	1.1			-1.5	-2.1	-2.4	-2.5	-2.4	-2.3	
Contribution from price and exchange rate changes 3/	-0.9	-1.1	-1.2	-1.1	0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	-2.5	-0.1	-2.7	1.9	2.8			0.2	0.8	1.0	0.9	-0.2	-0.2	
External debt-to-exports ratio (in percent)	191.3	198.1	193.2	187.2	330.5			305.3	236.1	225.2	214.6	204.5	194.4	
Gross External Financing Need (in billions of U.S. dollars) 5/	5.7	6.6	5.3	4.3	6.7			5.9	5.0	3.9	3.9	5.2	5.1	
in percent of GDP	14.4	15.8	12.2	9.6	15.4			13.0	10.6	7.7	7.3	9.3	8.6	
Scenario with key variables at their historical averages 6/						5-Year Historical Average	10-Year Standard Deviation	**83.1**	**88.5**	**94.7**	**100.8**	**105.7**	**110.5**	**-2.9**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.0	2.1	1.9	2.0	-1.6	1.3	1.3	2.0	2.7	3.1	3.3	3.3	3.3	
GDP deflator in U.S. dollars (change in percent)	1.4	1.7	1.7	1.7	-0.3	1.2	2.1	1.6	2.0	2.5	2.5	2.5	2.5	
Nominal external interest rate (in percent)	1.7	2.1	2.8	3.1	2.8	2.5	0.7	2.9	2.9	2.9	2.9	2.9	3.0	
Growth of exports (U.S. dollar terms, in percent)	-3.8	5.3	5.5	7.1	-35.9	-4.3	13.5	18.9	35.1	8.6	7.4	5.9	5.8	
Growth of imports (U.S. dollar terms, in percent)	-4.0	5.3	-0.5	-4.2	-17.1	-4.1	9.5	10.5	10.7	3.8	4.3	4.4	4.3	
Current account balance, excluding interest payments	-8.6	-9.3	-5.0	-0.1	-6.0	-5.8	3.7	-6.2	-1.6	-0.8	-0.4	-0.6	-0.4	
Net non-debt creating capital inflows	3.9	4.9	2.2	1.5	1.6	2.8	1.6	2.3	2.8	3.3	3.8	3.7	3.7	

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.

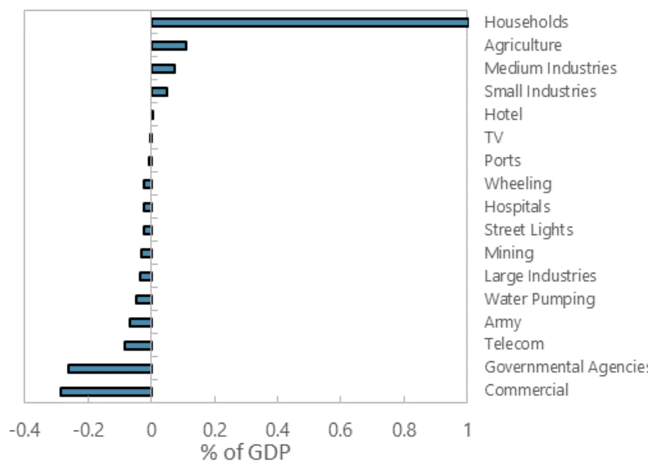
6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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.

Annex VI. Electricity Tariff Reform Plan

1. **The existing system of electricity tariffs is not aligned with Jordan's growth and employment needs, which have become more pressing in the wake of the COVID-19 pandemic.** Under the current tariff system, business tariffs vary significantly across sectors, and many productive business sectors face tariffs well above cost recovery and finance untargeted subsidies for household electricity consumption (a kind of "cross-subsidization"). Current tariff schedules were developed in the context of rising supply costs after the 2011 Egyptian gas supply disruption, but are increasingly misaligned with the current reality. NEPCO's supply capacity has expanded, supply costs have stabilized, and private sector growth and employment have been lagging with high electricity business tariffs being among the impediments to growth in some labor-intensive sectors.[1]

Cross-Subsidies in 2018



2. **In this context, the authorities have just adopted a three-year electricity tariff reform plan which reduces (a) in a progressive manner electricity subsidies accruing to households; and (b) electricity tariffs for key business sectors.** Reforms of both business sector and household tariffs are expected to be front loaded, with some additional changes phased over the later years of the reform. Rollout – for both households and businesses – is expected to start before end-March 2022; the authorities are committed to ensuring the reform is revenue neutral on a continuous basis throughout the implementation process.

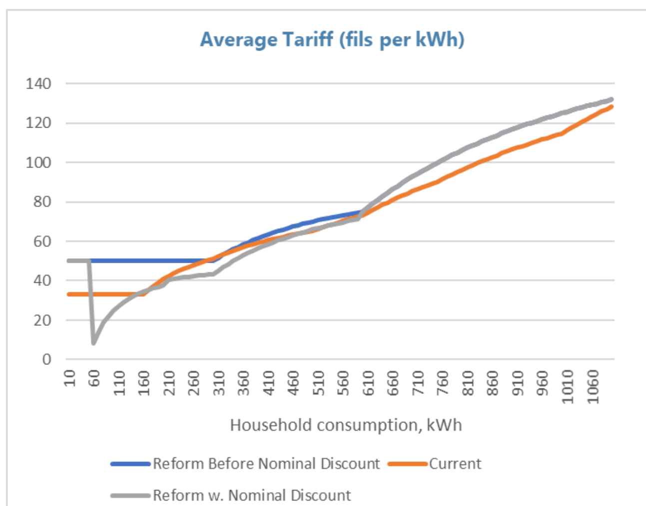
3. **The plan proposes reductions in the high costs of electricity for selected business sectors where these costs form a key impediment to job creation or competitiveness.** The reform plan envisions a reduction in annual business sector electricity costs of around 0.15 percent of GDP from the first full year of implementation. In selecting the sectors targeted for cost reductions, consideration is being given to (i) the extent to which sectors are paying tariffs above cost recovery, (ii) whether high tariffs are seen as an impediment to competitiveness; (iii) whether electricity costs are believed to hamper job creation; and (iv) reducing distortions in the tariff

[1] Jordanian firms are facing higher electricity costs than firms in most other countries; these high costs have been shown to hinder competitiveness, and constrain private investment, job creation, and wage growth, as well as reducing the overall resilience of the Jordanian economy to cope with external shocks (Hausmann et al. 2019). Research has shown that economies offering competitively priced electricity receive a greater share of both domestic and foreign investment (Audinet, Perre, and Pardina 2010).

structure for the targeted sectors.[2] On the basis of these criteria, the authorities are initially considering tariff reductions in energy-intensive sectors currently paying rates above cost-recovery (including the commercial, health, and industrial sectors). These sectors are likely to be key for generating value added and high productivity employment growth in the post-COVID era, given the large share of suitably skilled workers for these sectors among the unemployed in Jordan, and the potential for Jordan to become regionally competitive in these areas. The plan also envisions reducing the large number of business sector tariff categories to enhance the transparency and simplicity of the system. This includes eliminating some time-of-day tariff distinctions and potentially harmonizing tariffs for small and medium industry (these sectors already pay tariffs below cost recovery). The selection of sectors for further reductions in the second and third year of implementation will also be based on the criteria outlined above, in addition to being informed by a comprehensive World Bank study on business sector electricity tariffs which is expected to be completed in Q3-2022.

4. The authorities are proposing two complementary changes to household tariffs to generate the requisite savings needed for the business leg of the reform in a manner that protects vulnerable groups:

(i) *Streamlining of the consumption-based subsidized tariff schedule, and introduction of nominal discounts*. The reform, which involves a reduction in the number of tariff blocks from seven (currently) to three substantially simplifies the system, while retaining the progressivity implicit in consumption-based tariffs (lower income households are disproportionately found in lower consumption blocks). Moreover, to protect low- and middle-income households against large bill increases resulting from the change in the new simplified tariff schedule, a nominal discount will be applied to the monthly bills of select households. In the first year of the reform, consumption will be used to target the discount to households more likely to fall in low- and middle-income categories.



(ii) *Withdrawal of subsidies from households in a progressive manner.* Several categories of better-off households will face an unsubsidized tariff schedule. Various criteria will be used for exclusion of better-off households from subsidies from the first year of the reform: e.g., households with multiple meters or large self-generating capacity, ex-pats residing abroad, and non-Jordanian households with capacity to pay. All Jordanian households will need to apply for the subsidized regime on an online platform or in-person. The data collected as part of the

[2] The effect of electricity tariffs on production costs depends on energy intensity. A 2020 IMF TA mission found that the sectors where production costs would be most strongly affected by a decrease in electricity costs included the water sector, entertainment, services, retail, and private healthcare.

application process will help inform subsidy eligibility criteria and the calibration of the nominal discounts to further enhance the progressivity of the system, both at the onset of implementation and in the outer years. The authorities will leverage the support of technical assistance, including from the Fund, in this effort.

5. **The reform to household tariffs will be progressive from the first year of implementation; progressivity will improve in later years as the reform is further refined.** The new streamlined consumption-based subsidized tariff regime, and the introduction of discounts for low consumption households, helps generate small gains for lower income households at the expense of higher income ones. Secondly, exclusion criteria will help make the reform more progressive, by removing subsidies from households in a progressive manner with some households allocated to a fully unsubsidized regime and others excluded from nominal discounts—in order to generate savings. This is expected to affect households predominantly in the upper quartile of the income distribution in the first year of the reform, reducing the subsidies accruing to them.

6. **An effective and credible appeals mechanism will be set up to minimize exclusion errors and protect the vulnerable.** The mechanism will help determine whether households were wrongly excluded from the subsidized scheme, and therefore, should regain eligibility. The appeals system will also facilitate assessing the accuracy of the various exclusion criteria during the first year of the reform, in order to support the refinement of these criteria in the second and third years. Exclusion errors identified via the appeals system may reduce the number of households allocated to the unsubsidized regime, and result in lower savings than expected; hence, the appeals system will be fully funded over the years of the reform plan through buffers incorporated in costing estimates to ensure adequate savings are generated from the household leg of the reform.

Appendix I. Letter of Intent

Amman, Jordan
June 17, 2021

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

Dear Ms. Georgieva:

Jordan is experiencing unprecedented economic challenges due to the COVID-19 outbreak. The outbreak of the virus and measures to contain it both locally and globally have taken a heavy toll on our economy. Interruptions to domestic activity and global supply chains have coupled with reduced tourism, remittances, and export receipts to adversely affect Jordanian incomes. The budget has come under pressure due to the associated revenue loss, the need to mobilize additional public resources for health and social protection and support the most severely impacted sectors of the economy.

Early success in containing the spread of COVID-19 has been challenged by two subsequent waves of the pandemic, rendering Jordan as one of the most severely affected countries in the region. As the third wave of the pandemic unfolds, we are facing again the difficult choice between saving lives and livelihoods. Leveraging the build-in flexibility of our EFF-supported program, we are devoting the necessary resources for an adequate health response, vaccine procurement, enforcing the use of masks in public places and other safety measures. We have also further increased critical social spending to support the most vulnerable and launched initiatives to keep workers employed and limit the scarring effects of the pandemic.

We are fully committed to the objectives of our EFF-supported reform program: preserving debt sustainability and external buffers, maintaining monetary and financial sector stability with the view of supporting the exchange rate peg, and advancing structural reforms to achieve higher and more inclusive growth. Indeed, we are strengthening social safety nets, and working to reduce unemployment, promote labor force participation, particularly for youth and women, enhance competitiveness, and improve governance and transparency. The pledged support by the international community under the Jordan Compact and the 2019 London Initiative, will enable us to continue shouldering the burden of hosting 1.3 million Syrian refugees.

Despite the pandemic-induced revenue shortfalls and the need for increased spending to save lives and support the economy, we were able to meet all end-December 2020 quantitative performance criteria (QPC) and most indicative targets. Our 2021 budget approved by Cabinet and Parliament is in line with the fiscal consolidation path envisioned in the program. This is a testament of our commitment to the program and to prudent fiscal management. We have also delivered on critically important structural benchmarks (SBs) overcoming persistent socioeconomic challenges which were exacerbated by the COVID-19 pandemic. We have submitted to parliament amendments to the Investment Law removing all articles related to tax incentives, enhanced economic substance and transfer pricing regulations and conducted a comprehensive review of trust accounts. We are continuing a robust anti-tax evasion drive and have further enhanced tax administration capacity, as part of our efforts to strengthen tax compliance. Progress in this area has helped cushion the pandemic-related drop in fiscal revenues. We also introduced regulations to provide affordable childcare. As per our commitment to good governance, we are publishing information on COVID-19 related spending. It is against the backdrop of this record of strong program performance that we set out our commitments on actions and further reforms in the attached Memorandum of Understanding of Economic and Financial Policies (MEFP).

The CBJ has continued its strong track record of skillful management of monetary policy, which has been anchored by the peg to the US dollar. The peg has served our economy well, and helped to preserve market confidence and avoid any potential de-anchoring of inflation expectations. Balancing macroeconomic stability and growth objectives, we have kept an accommodative monetary stance to support credit growth and have, at the same time, maintained a comfortable level of international reserves. Furthermore, in an effort to mitigate the impact of the pandemic on businesses, and to protect jobs, particularly in SMEs, the CBJ has expanded the size of its subsidized lending program to JD 700 million in March 2021, up from JD 500 million.

In light of the worse than expected second wave and the need to contain the still-unfolding third wave of the pandemic, we are requesting a modification of the end-June 2021 QPCs, which would enable us to protect the still fragile recovery, increase our support to the most vulnerable, and address record-high unemployment. We have completed the comprehensive review of the most significant PPA, and adopted a three year plan for electricity tariff reforms in line with our commitments under the program.

In view of our strong performance under the program supported by the IMF, we request the completion of the second review under the extended arrangement and approval of the related purchase, reset of the completion date of delayed structural benchmarks and modification of performance criteria. To meet the higher financing needs in 2021–22, and catalyze additional donor financing, we request an augmentation of the EFF by around US$200 million (SDR 144 million or 42 percent of quota).

We believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our program, but 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. The implementation of our program will continue to be monitored through semi-annual quantitative performance criteria, structural benchmarks, and quarterly indicative targets as described in the MEFP and in the attached Technical Memorandum of Understanding (TMU). The Government and the CBJ will provide the Fund with the data and information necessary to monitor performance under the program as specified in the TMU. We expect the third review to be completed on or after September 30, 2021, and the fourth review—on or after March 30, 2022.

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. **The COVID-19 pandemic is taking a heavy toll on our economy.** It affected negatively both supply—as a result of the strict containment measures, the disruption of global and regional supply chains and tourism—and demand, reflecting income losses, suppressed consumption during curfews, and the heightened uncertainty. The prudent and timely measures taken by the government and the CBJ prevented a sharper economic decline. While the decline in real GDP is now expected to be closer to 1.6 percent in 2020, the pain it has inflicted on our citizens has been severe. The unemployment rate hit an all-time high of 24.7 percent in the last quarter of 2020, with over half of younger jobseekers being out of work. The dichotomy in the latest macro figures is explained by the positive impetus from the policy stimulus on the government services and finance sectors through which it was channeled, as well as the bigger impact of the pandemic on job-rich services sectors (in which the degree of informality is high and a greater share of activity is not captured in national statistics). The demand contraction and low international energy prices kept inflation at 0.4 percent average for the year. The current account deficit is expected to reach [8.1] percent of GDP in 2020, as a result of lower tourism, export, and remittances receipts, as well as pandemic-related delays in grant disbursements at year's end. This was only partially offset by savings in the import bill from weaker demand and lower energy prices. The crisis-related drop in revenues and additional spending on health and social protection caused the combined public sector deficit to widen to 7.4 percent of GDP in 2020, bringing public debt net of social security fund holdings to 88 percent of GDP.

2. **Our response to the pandemic has been timely and commensurate**. In addition to virus containment measures, to minimize the economic fallout of the crisis and shield the vulnerable, we increased social protection spending, deferred tax, customs and key utility payments, and temporarily reduced consumption tax rates on tourism. We have availed ourselves of the welcome flexibility provided by the program adjustors to expand the capacity of the healthcare system to deal with a surge in COVID-19 infections. This has allowed us to keep the economy open through the second and third waves. On the monetary side, Central Bank of Jordan (CBJ)'s sizeable and timely measures at the onset of the pandemic, of about 8 percent of GDP, has provided liquidity to the market and support to heavily impacted sectors. CBJ has recently expanded its subsidized lending schemes to SMEs and extended to end-year 2021 the deferment on debt repayments by affected borrowers to banks. In combination, these measures will continue to help keep workers employed, businesses afloat, and credit flowing, despite the economic contraction.

3. **In implementing the stimulus, we have taken care to limit the erosion of key fiscal and financial buffers.** To offset the crisis-induced deterioration in the fiscal accounts, we postponed non-priority capital investment, temporarily reduced the pay of cabinet members and senior government officials, while wage increases of other government employees, teachers, and military personnel were delayed. Moreover, overtime bonuses and allowances for higher paid employees, as well as fuel and transportation allowances and travel bonuses have been suspended; and a hiring freeze for new positions in government entities and state-owned enterprises has been instituted. The CBJ did not relax its regulatory requirements and took the important prudential measure to

require banks not to pay out their 2019 dividends and limited the 2020 dividend payouts to 12 percent of banks' paid-in capital, thus strengthening further banks' capital buffers.

4. Despite the ongoing pandemic, we were able to implement an ambitious tax policy legislative agenda. In line with the IMF TA recommendations, we submitted to parliament amendments to the 2014 Investment Law to eliminate all articles related to preferential tax treatment. To protect against tax base erosion and profit shifting, we have enacted effective legislation to strengthen transfer pricing rules in line with international standards and IMF staff advice. We have also approved legislation to introduce economic substance regulations for all special economic zones. This regulation, coupled with the recent signing of the Convention on Mutual Administrative Assistance in Tax Matters (MAAC), has allowed Jordan to be taken off the EU "Gray" List of noncooperative jurisdictions for tax purposes. We are introducing into the GST law "place-of-taxation rules" in line with international best practices (submitted to Cabinet). We have submitted to parliament the amended law to bring ASEZA into a single Jordan tax administration and a single customs service.

5. We have also persevered with important reforms to strengthen tax administration capacity and improve tax compliance. A majority of tax services have been shifted online. 75 percent of returns in 2020 were submitted through e-filing (compared to only 6 percent in 2016) and 95 percent of refunds are now deposited directly into taxpayers' accounts. We set up a dispute resolution procedure for settling outstanding income and sales taxes, which should help minimize the need for costly and time-consuming court procedures. Instead of auditing all big firms annually, we have adopted a risk-based approach to audits. We have also established a "gold list" of tax-compliant companies; companies on the list will be entitled to fewer audits, faster processing of tax filings and tax refunds, and deferral of tax payment on imports (to the time of sale). We have changed GST by-laws to mandate that all tax arrears be paid to businesses within 30 days instead of six months previously and aim to clear all of the Income and Sales Tax Department's (ISTD) outstanding arrears by year-end. We are working on strengthening the institutional and technical capacity of the ISTD, including through increased staffing, personnel training, and organizational changes. 100 qualified staff, including new auditors, have been hired by ISTD and distributed across the large taxpayer directorate and other key directorates. In parallel, we embarked on a robust anti-tax evasion effort that has already helped identify significant under-reported tax liabilities and pinpoint key loopholes used in tax avoidance.

6. The economic environment is likely to remain challenging this year before our economy returns to the pre-crisis path of internal and external adjustment over the medium term. Despite a slow start due to the effect of the third COVID-19 wave, real GDP growth is projected to rise to 2 percent in 2021, as vaccination rates gradually increase, and the global recovery supports a return of international tourism, including visits by Jordanian expatriates. Growth will gradually accelerate to around 3 percent over the medium term, closing the output gap. Inflation will average 2.3 percent in 2021, in line with the economic recovery and with rising global fuel and food prices. The current account deficit is projected to reach 8.3 percent of GDP in 2021, as the recovery in tourism is pushed back by the COVID-19 resurgence, before returning to its pre-pandemic adjustment path, maintaining reserve adequacy. A gradual multi-year fiscal consolidation over 2021–24 should bring public debt down to below 80 percent of GDP by end-2025.

7. In these challenging times, donor support is ever more critical in helping Jordan cope with the refugee crisis and its associated fiscal and social costs. In 2020, the shortfall between planned and received donor financing to address the needs of refugees remained in excess of USD 1 billion, even before factoring in the higher costs of reining-in the spread of COVID-19 among the refugee population. These shortfalls hamper Jordan's ability to sustainably cope with the refugee crisis and reduce macroeconomic vulnerabilities. Notwithstanding this, Jordan will continue to provide refugees with all essential services.

8. Our commitment to the EFF program remains strong. Since the approval of the EFF in March 2020, we have maintained continuous engagement with the Fund on developments on the ground and on policy issues. Our careful implementation of stimulus measures, and efforts to arrest tax evasion, which we have pushed through despite the ongoing crisis, indicates our strong commitment to the program's macroeconomic stability and debt sustainability objectives. Despite COVID-related drop in revenues and pressures on the budget exerted by the need to protect lives and livelihoods, we were able to meet the end-December 2020 quantitative performance criteria (QPCs) and end-March ITs for the primary fiscal deficit of the central government, the combined public deficit, net international reserves (NIR) and non-incurrence of external debt service arrears. Similarly, most indicative targets for end-December and end-March have been observed (MEFP Table 1). We have also successfully implemented structural conditionality (MEFP Table 2). Finally, the recently approved 2021 budget reflects our commitment to reduce primary deficits and arrest debt sustainability risks.

POLICIES FOR SAFEGUARDING MACROECONOMIC STABILITY AND BOOSTING GROWTH

A. Fiscal Policy and Structural Fiscal Reforms

9. Fiscal balances have weakened in 2020 due to the revenue loss and additional spending needs associated with the crisis. Domestic revenues declined by 9.4 percent relative to 2019, led by a COVID-related collapse in nontax revenues. The deterioration in revenues would have been even larger, if not for the carryover effects from the 2018 income tax law; anti-smuggling measures for tobacco products; reduction of sales tax and customs exemptions; and robust anti-tax evasion campaign. Total expenditures remained broadly flat, as increases in spending on health and social protection, and the interest bill, were offset by lower capital expenditure. The public wage bill was in line with the 2020 budget, as savings from delaying public sector salary increases and bonuses to end-2020, and imposing hiring freezes on new positions, were channeled to hire additional medical personnel to manage the second wave of infections. At 5.7 percent of GDP, the 2020 central government primary deficit (excluding grants) came in 0.3 percent of GDP lower than programmed, while public debt (at 88 percent of GDP) was 1.2 percent of GDP below the end-2020 program projection.

10. Fiscal policy in 2021 and over the medium-term will need to strike a delicate balance between protecting the recovery and arresting the rise in debt. We are aiming to narrow our primary deficit excluding grants to a targeted level of 4.3 percent of GDP, which constitutes an improvement of 1.4 percentage points of GDP compared to 2020. This target represents a temporary 0.6 ppt of GDP relaxation relative to the 3.7 percent of GDP target for 2021 envisioned at the time of the first review. This additional fiscal space will enable us to accommodate higher spending on critical social protection and job-support schemes, as well as somewhat weaker revenues (due to the markdown in growth). The proposed measures are targeted and temporary and will be offset by stronger deficit consolidation in outer years. We are committed to implementing a significant, but growth-friendly and phased, fiscal consolidation effort to bring public debt (net of SSC holdings) to below 80 percent of GDP by 2025.

11. We will continue monitoring the balance sheets of some public enterprises and local government units with a view of addressing emerging vulnerabilities:

- **Royal Jordanian (RJ).** The five-month suspension of all incoming and outgoing commercial passenger flights in 2020 and the slow pace of subsequent re-opening of the airport have pressured RJ's finances. Given its strategic national importance, we are committed to facilitate the orderly restructuring of RJ operations to enable its quick return to profitability. Any government support provided in this context will be measured, and conditional on agreeing on a plan for increasing RJ's operational efficiency and its steadfast implementation.

- **Greater Amman Municipality (GAM).** The containment measures implemented in the context of the pandemic have led to a further decline in GAM's own-source revenues. GAM is developing a comprehensive restructuring plan to strengthen revenues, decrease operating costs, stretch out its debt maturities, and implement a monitoring mechanism to enable supervision by the Jordanian government.

12. To durably improve the efficiency of public finances, we are targeting structural fiscal reforms in key areas:

(i) **Tax policy and administration:**

- *Tax policy.* To enable us to collect more taxes without raising tax rates, we will initiate, with IMF technical assistance, a tax expenditure analysis to streamline and better target tax incentives, including in the special and development economic zones. This, alongside an FAD-supported plan, encompassing both tax policy and administration, to implement recent and ongoing legislative reforms aimed at streamlining tax incentives, introducing place-of-taxation rules for GST, establishing economic substance requirements for special zones, enhancing transfer pricing rules, and bringing ASEZA into a single tax administration and a single customs service for Jordan, will be prepared by MOF and shared with IMF staff by end-November 2021 (new proposed end-November 2021 SB).

- *Revenue administration.* We will enhance ISTD capacity by upgrading its IT infrastructure; strengthening its audit function, through incorporating risk-based practices and establishing specialized audit teams for high-risk sectors in the large taxpayer directorate (LTD); and collaborating with local universities to develop appropriate curricula and train new and existing ISTD staff. We are in the process of fully automating of the income and sales tax registration process for new companies, including the granting of tax identification numbers and VAT certificates (by end-2021). To address revenue leakages from tobacco smuggling, we have signed digital track-and-trace commitments with the three largest cigarette companies and are on track to implement the track and trace software system with the largest cigarette company by end-July 2021 (SB), with the view of full implementation in the rest of the sector by end-March 2022. Finally, we are proceeding with the rollout of e-invoicing in several pilot sectors in early 2022. This will strengthen the monitoring of economic activities, disincentivize under-invoicing through a random enforcement mechanism, and strengthen the audit function of the sales-tax framework.

(ii) **Social safety net.** To ensure adequacy and efficiency of social safety net, we conducted a comprehensive review of our social spending envelope, and will publish and implement an action plan to enhance its effectiveness and efficiency in coordination with the World Bank and UNICEF in early 2022. We are continuing to implement 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 [brought] the National Unified Registry (NUR) online as single gateway for all Jordanians seeking social assistance. Our program already includes a floor on social spending (IT), consisting of: (i) non-wage components of the education and health sectors' current expenditure envelope; (ii) NAF's and other entities' social protection programs; and (iii) the school feeding program. To ensure that the vulnerable are adequately provisioned, we have increased allocations to NAF in the 2021 budget and are planning to further increase temporary support for the unemployed, using the additional fiscal space provided by the 2021 primary deficit target relaxation.

(iii) **Public sector wage bill and efficiency.** We will contain the public wage bill by extending the hiring freeze on new positions in non-essential sectors until end-2021. We will also be looking at improving the efficiency of the public sector by making remuneration performance-based and better aligning it with that of market comparators; and enhancing the institutional roles within the Government of Jordan to strengthen budgetary oversight and human resource planning. Finally, we continue to explore scope for streamlining the public sector by merging ministries and agencies with a view to reducing and rectifying cases of inefficiency. In the context of the above initiatives, we will complete a study of the drivers of the public sector wage bill with recommendations on enhancing civil service efficiency and better aligning remuneration with that of market comparators (new proposed end-October-2021 SB).

(iv) **Public financial management. Building on measures to stem the accumulation of new arrears, the Minister of Finance will:** (i) issue a circular setting out timetable for elimination of the end-2020 stock of central government domestic arrears during 2021–22; and (ii) issue decision committing all central government entities to new procedures for purchases from Jordan Petroleum Refinery Company to eliminate the incurrence of energy arrears in the future (new proposed end-July, 2021 SB). To eliminate off-budget expenditures, we are strengthening top-down budgeting, improving the quality of fiscal projections, and have issued a cabinet decision to prohibit the use of treasury advances to pay for unbudgeted expenditures. We will issue guidance (by end-June 2021) to the main trust account holders to submit to the MOF monthly revenues, expenditures, and financial transaction information, including explanations for changes over JD 3 million, and flagging future large drawdowns/increases. The parliament passed amendments to the 2017 draft organic budget law, which have benefitted from technical assistance from the Fund.

(v) **Fiscal transparency and fiscal risks management.** To signal our commitment to transparency in public finances, we invited the IMF's Fiscal Affairs Department to undertake a comprehensive Fiscal Transparency Evaluation (FTE) in March–April 2021. We [issued] all regulations needed to support implementation of the Unified Public Procurement Bylaw. We will accelerate the rollout of the eGovernment Procurement system, JONEPS, including by: (1) amending the above By-law and regulations based on one year of implementation to clarify, inter alia, issues such as conditions for allowing direct purchasing (such as COVID-related emergency spending) and the membership, structure, and remuneration of committees (new proposed end-December 2021 SB); and (2) ensuring adequate staffing of the relevant committees and units directing and implementing the rollout of JONEPS. This will help ensure the highest levels of integrity, transparency, and fair competition. We will continue expanding the JONEPS coverage to include all public institutions at the ministerial level and municipalities by end-December 2022. With the help of Fund TA, we have undertaken a comprehensive review of SOEs and PPPs, with the goal of identifying and quantifying fiscal commitments and contingent liabilities. Leveraging the IMF Fiscal Affairs Department's SOE Health Check Tool, we will develop a consolidated database of major SOEs (or entities with majority government ownership) financial performance in the energy, water, and transport sector; as well as subnational governments.

(vi) **Improving investment quality.** To fully implement the new Public-Private Partnerships (PPP) law, we issued Cabinet decisions to clarify that the law is binding for all new projects for which the procurement process had not started by April 2020 and entrust the Fiscal Commitments and Contingent Liabilities (FCCL) unit at MOF with monitoring and evaluating the financial commitments of all existing PPP projects, including in the energy and water sectors. To ensure adequate coordination and information sharing between the entities, all ministries and government agencies have been required to supply the FCU with the necessary documents and required information for all established and new PPPs. To build on progress in this area we commit to the following actions:

- We will adequately staff the PPP Unit at the Prime Minister's office, the FCCL unit at the MOF and the Public Investment Management (PIM) Unit at the Ministry of Planning and International Cooperation (MoPIC).

- We will issue secondary legislation that will require the adoption of PIM appraisal documents for all new public investment projects (PIPs) and PPP investment projects to ensure their proper management and selection (new proposed end-Oct 2021 SB).

- By end-2021, we will prepare the legislative basis and launch the National Registry of Investment Projects (NRIP), comprising of the Public Investment Project (PIP) Databank and the Public-Private Partnership (PPP) Project Databank, and will include in it all PIPs in the 2022 General Budget and all prepared PPP projects.

(vii) **Fiscal policy and debt management capacity.** Building on the success of the project management unit in the Ministry of Finance in driving the ambitious structural fiscal reform agenda, we will strengthen the Ministry of Finance's capacity to generate its own medium-term forecasts (including off and on budget grants and loans), assess and elucidate the dynamic and distributional impacts of alternative revenue and expenditure measures, monitor public balance sheet risks, and carry out debt management and debt sustainability analyses. To this end, we will recruit four new division heads and four staff for a new macro-fiscal unit at MOF by end-October 2021 (new proposed end-October 2021 SB). This unit should produce its first report on macro-fiscal outlook and risks in the first quarter of 2022. With MCM TA, we are also seeking boost our debt management capacity, with a view to lower debt service costs at an acceptable level of risk through liability management operations.

B. Monetary and Financial Policies and Enhancing Access to Finance

13. Monetary policy will continue to be underpinned by our firm commitment to the exchange rate peg. The peg has served our economy well to preserve market confidence and avoid any potential de-anchoring of inflation expectations. At the onset of the crisis, the CBJ has implemented a sizable package of measures, totaling about 8 percent of GDP, to support economic activity. As a result, credit growth to the private sector held up well at nearly 6 percent in 2020, allowing firms, including SMEs, to remain in business and keep employees on the payroll. To mitigate the impact on retail and corporate borrowers, the CBJ had allowed banks to postpone the installments of the affected customers without any commission or delay interest. This measure has now been extended until end-2021. Although additional liquidity stimulus to the banking sector does not appear to be warranted at this time, the CBJ will continue to carefully monitor the state of the economy and will remain alert to global financial conditions and any attendant pressures that might arise. Our objective continues to be to maintain international reserves above 100 percent of the Fund's Reserve Adequacy Metric.

14. The CBJ has provided support to businesses, with a focus on SMEs, through subsidized lending programs to protect employment. The CBJ created a JD 500 million SMEs lending program at the onset of the crisis in 2020 and adjusted the terms of an existing one. The two subsidized lending programs have been seen as crucial for Jordanian businesses to weather the ongoing pandemic. In light of this, in March this year, the CBJ increased the envelope of the JD 500 million SME scheme to JD 700 million, raised the borrowing limits under the scheme for especially hard-hit sectors by the pandemic and extended the terms of the loans by one year in a bid to continue supporting the economy and prevent the already high unemployment level from rising further.

15. The CBJ will continue to manage foreign reserves conservatively with the objective of maintaining safety, liquidity and profitability. To strengthen the CBJ's framework for investment of foreign reserves, our existing regulations on investment of foreign reserves have been integrated in one Board-approved investment policy in December 2020. Aspects that are part of the policy include: the hierarchy of objectives of foreign reserves, roles and responsibilities of the CBJ units, maximum size of term deposits, and a formal procedure to (i) manage limit breaches, (ii) decide composition of the foreign reserves, (iii) rules for credit/concentration limits, and (iv) reporting system.

16. Our banking system has remained liquid and well-capitalized. The system-wide capital adequacy ratio was 18.3 percent at end-2020, the same level as in 2019, and well above the CBJ regulatory minimum of 12 percent. The CBJ's decision not to allow distribution of banks' 2019 profits and to put a 12 percent cap on the distribution of 2020 profits as a share of banks' paid-in capital has provided additional cushion. Non-performing loans appear manageable, increasing from

5 percent of total loans in 2019 to 5.5 percent in 2020, though they are likely to rise as the full impact of the COVID-19 pandemic unfolds and banks reassess their portfolios in light thereof. Meanwhile, the coverage ratio of the NPLs increased from 69.5 percent at end-2019 to 70.7 percent at end-2020.

17. We will closely monitor and address risks in the banking system, leveraging our strong prudential and supervisory framework. The CBJ's accounting, reporting and provisioning practices are designed to ensure an adequate and timely monitoring of risks. The CBJ continuously conducts stress tests to ensure that all banks have sufficient buffers in the case of a significant rise in NPLs and hit to profits. To ensure that asset quality problems are recognized and addressed in a timely manner, we have continued to require banks to follow strict provisioning requirements, in line with IFRS9's forward-looking expected loss approach, notwithstanding the temporary impact thereof on reported bank profits which also explains the large drop in bank profitability in 2020. Should capital adequacy fall below the 12 percent CBJ threshold for any bank, the CBJ will require the bank to submit a credible capital restoration plan to gradually rebuild capital.

18. The legislative and regulatory framework for banks is being strengthened further. Since 2018, Jordanian banks have been compliant with the IFRS9 accounting standards, which has bolstered transparency and monitoring. The 2019 legislative amendments to the Deposit Insurance Corporation (DIC) law and to the Banking Law as a whole: (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. The CBJ is committed to continuously assess and, if needed, strengthen its framework for bank resolution. In 2019, the CBJ issued revised instructions on exposure limits for banks operating in Jordan. New instructions regarding the application of liquidity standards were issued in early 2020. The planned approval by the CBJ Board of detailed guidelines to implement the Emergency Liquidity Assistance framework provided for in the CBJ Law is on track (end-June 2021 SB). Among other things, the guidelines will define acceptable collateral, instructions how to assess risks, and will include draft contracts. The CBJ is also reexamining the extent to which certain legal provisions are an impediment to IFRS compliance and will concurrently benchmark against practices in other central banks with similar statutory requirements. The study and the resulting recommendations will be submitted to the CBJ Board by end-August 2021.

19. We will continue enhancing the regime for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). With the assistance of the Fund, we have completed a National Risk Assessment, which has contributed to a more enhanced review of the draft AML/CFT law to ensure that it is fully in line with Financial Action Task Force (FATF) standards. The draft law addresses many of the practical issues faced by the AML/CFT Unit and other competent authorities and the recommendations included in the mutual evaluation report of Jordan. The draft AML/CFT law, was approved by the government in March 2020 and is expected to be passed by parliament by Q3 2021. The IMF has also provided drafts to instructions for the implementation of the targeted financial sanctions related to Terrorist Financing and Proliferation Financing United Nations Security Council Resolutions. CBJ with support from Fund technical assistance, has amended its regulations to ensure better conformity with FATF standards, and further regulatory reform will be put in place once the amendments to the AML/CFT are passed. Also, in line with IMF technical assistance recommendations, we have put in place a risk-based framework for offsite and onsite supervision of banks, money-exchange firms (the two most critically important sectors for AML/CFT), securities firms, and real estate agents. The CBJ is making progress on this for other financial institutions using the IMF risk based framework. To continue strengthening our AML/CFT regime, we have requested follow-up IMF TA in this area.

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

- A new Insurance Law to allow for the transfer of the supervision of the insurance sector to the CBJ was enacted in June 2021. The law allows for implementation of reforms to the sector's regulatory framework in line with recent IMF TA. Meanwhile, the CBJ is training staff and drafting the necessary operational guidelines. 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.

21. Reforms to facilitate access to finance will help broaden the reach and usage of financial services. In this respect:

- The CBJ implemented the National Financial Inclusion Strategy (NFIS) 2018–20 and fully achieved its overarching goals. In the context of this strategy, the CBJ released instructions for all operating banks in Jordan to open a "basic bank account" for eligible citizens. The "Instructions of the Basic Bank Account" aim to allow legally eligible citizens and the financially excluded to open a bank account. Instructions also include simplified due diligence procedures and exemption from fees and minimum balance requirement. The first issue of a regular Financial Inclusion Report, which took stock of progress in implementing the 2018–20 Financial Inclusion Strategy, and the Financial Inclusion Action plan for 2020–21, were published at end-March 2021.

- Going forward, the CBJ has mandated a financial inclusion diagnostic study to be carried out during 2021 to measure the current state of financial inclusion in Jordan, capture the impact of the aforementioned NFIS, and use the outcomes as a basis for forming a new evidence based strategy to further enhance access to financial services in Jordan. Meanwhile, the CBJ has prepared a Financial Inclusion Action Plan for 2021–22.

- To support micro enterprises, the CBJ will launch in Q2 2021 a new financing program through allocating USD 30 million from the new Arab Monetary Fund loan to be lent directly to microfinance institutions at zero interest rate, the cost of which will partly be subsidized by the government.

22. We have requested the IMF to conduct an update of the Financial Sector Assessment Program (FSAP) in late 2022 with preparatory work starting in early-2022. The Jordanian financial system has witnessed significant changes since the last FSAP update in 2008. In addition, the financial system has been subjected to three major external shocks since the last update and it is important to understand the longer-term structural impact of these shocks. Once the post-COVID-19 recovery takes hold, a systemic analysis would be important to ensure the continued resilience and health of the financial system going forward.

23. We have also requested additional IMF TA to further update our monetary policy and banking supervision frameworks. The CBJ has greatly benefitted from continuous IMF TA. As a follow-on to the ongoing TA on liquidity forecasting, we have requested TA on analyzing the different components of excess liquidity in banks such as holdings for precautionary reasons. We have requested IMF TA on setting up a comprehensive and state-of-the-art monetary and economic policy modeling framework. As part of our effort to continuously keep abreast of international best practices, we have also requested TA on risk-based banking supervision framework. Finally, in preparation for some nonbank financial corporations coming under the supervisory umbrella of CBJ by mid-2021, we have also requested TA to update monetary statistics to allow for this expanded coverage.

C. Electricity and Water Sector Reforms

24. We are adopting measures to arrest the post-COVID-19 rise in NEPCO losses. After registering a 0.2 percent of GDP loss in 2020, NEPCO losses are expected to widen to 1 percent of GDP in 2022 and in outer years on the back of a slow growth in electricity demand, the fuel clause remaining at zero, and the coming on-stream of the oil shale project. In this context, we are pursuing a comprehensive strategy to restore NEPCO to financial viability over the medium term, which will encompass reforms to raise revenues, including accounting for any revenue losses in the wake of COVID-19; and to reduce costs further.

- *Revenue measures*. Given available generation capacity, our priority remains securing higher domestic and regional demand so that the average cost of electricity supply decreases. In 2020, we reduced tariffs for small and medium enterprises as well as for all business sectors on consumption above 2019 levels, in order to support growth in productive sectors and strengthen NEPCO revenues by incentivizing demand and stimulating better utilization of available generation capacity. We plan to further increase domestic revenues through better bill collection by installing electricity meters for every house connected to the grid to combat illegal connections; and through promoting the electrification of different end-uses. We are also expecting electricity exports to the West Bank to increase in 2021. Following the signing of the export agreement with the Iraqi government, we have started construction of the necessary infrastructure with the support of bilateral partners, and we expect exports to start in 2024.

- *Costs saving measures*. We will continue to optimize the usage of all available energy sources through adequate imports of gas (including from Egypt, the Mediterranean and LNG markets) to reduce costs and maximize efficiency. Second, we will continue to reduce the costs of LNG storage and regasification. Third, we will explore options to optimize costs related to existing and future PPA commitments which impose large capacity charges on NEPCO, and we will continue our efforts to continue to retire old power plants; we expect to retire three plants by 2025, delivering annual savings that will reach about JD 47 million by 2025.

- *Debt optimization*. We will continue to implement measures in NEPCO's debt optimization plan, which was approved by cabinet and partly implemented in 2020. As part of this strategy, the government and NEPCO will engage with external partners to seek refinancing of debt maturing in 2021 and 2022 at slightly lower costs and at longer maturities.

25. We are committed to clearing new arrears incurred by NEPCO with IPPs. NEPCO plans to clear JD 69.5 million in arrears to IPPs accumulated during the 2020 lockdown by end-April 2021, following the *force majeure* NEPCO enacted. We have reached agreements with all IPPs on a repayment schedule for these arrears, and NEPCO has started making scheduled payments in January 2021, as agreed.

26. After careful deliberation, we have adopted a three-year plan, with frontloaded implementation starting no later than March 2022, that is revenue neutral for NEPCO, and that (a) reduces electricity tariffs for key business sectors; and (b) reforms the household tariff system to reduce distortions and generate savings in a progressive manner (prior action). The reform will enhance private sector competitiveness and job creation, and will reduce distortions for household and business end-users without adversely affecting NEPCO finances. Specifically, the plan will provide a vehicle for:

- *Reducing electricity tariffs for key business sectors*. We will use part of the savings achieved from the better targeting of household subsidies (see below) to reduce tariffs for key business sectors facing rates above cost recovery and for which high electricity costs are an impediment to competitiveness and growth. For the first year of the reform, we are considering tariff reductions in several energy-intensive sectors currently charged well above cost-recovery, and which generate high value added and high-productivity jobs and that are expected to contribute to Jordan's competitiveness going forward; these include the commercial, health, and industrial sectors. We will also reduce the number of tariff categories to: simplify the tariff structure, remove ambiguity, and improve transparency; address distorted incentives created by existing tariffs; and harmonize tariffs across sectors and time of day.

- *Reforming the household tariff system to reduce distortions and generate savings in a progressive manner*. We are introducing a streamlined tariff structure with 3 (rather the 7) consumption blocks, a lower top marginal tariff rate, and a system of nominal discounts declining with the level of consumption. Several categories of better-off households – households with multiple meters or large self-generation capacity, owners of service meters, expats, and non-Jordanians with capacity to pay – will be fully or partially excluded from electricity subsidies. All Jordanian households will be asked to apply for the subsidized tariff on a platform. Those receiving NAF support, which is targeted at the most vulnerable, such as the complementary support and Takaful programs, will be automatically eligible for subsidies. The information gathered during this process will help inform subsidy eligibility criteria and improve the calibration of the nominal discounts, such that the reform is revenue neutral at all times. Should subsidy savings from households exceed the requirements of revenue neutrality, the surplus could be deployed to further reduce business tariffs over time. We will leverage the support of our development partners, notably the Fund and the Bank, in this effort.

- *Seeking donor assistance to support vulnerable groups potentially affected by the reform.* The reform will protect the most vulnerable Jordanian and non-Jordanian households. In particular, we will continue to allow Palestinian refugees and, for six months, the poorest 25 percent of Syrian refugees (as identified by the UN system), to access the subsidized tariff. We are committed to working with donors to secure resources for these and other vulnerable refugees, while continuing to provide flexible and free work permits for Syrian refugees (see MEFP paragraph 29).

27. We are supporting the reform with a robust communication plan and a time-bound implementation plan for its rollout. We have started the outreach on the motivations of the tariff reform to the public and are communicating the expected impact on bills, growth, and jobs. After we announce this plan, we will continue to closely coordinate across government entities to advance its implementation. Moreover, to minimize errors of exclusion, we will ensure the necessary support for continued processing of subsidy applications from households after the initial roll-out of the reform, and put in place an effective and credible appeals mechanism for households that claim they have been wrongly excluded from subsidized rates. We are committed to starting the rollout of the new tariffs for both households and businesses by no later than March 2022 (new SB) and ensuring continuous revenue neutrality of the reform for NEPCO.

28. We are committed to continue and scale up reforms in the water sector in order to contain rising losses and ensure a sustainable path for the supply of water, critical for both growth and stability. Jordan is one of the driest countries in the world; Jordan's low water resources are depleting at an alarmingly fast pace, leading to rising pumping and treatment costs, and increasing risks of water shortage crisis. Developing additional infrastructure to boost water supply has become more urgent and will increase capital and current expenditure of the water sector very substantially, making reforms in the water sector ever more critical. In this context, we are committed to:

- *Arresting the accumulation of arrears*. We remain committed to arrest the accumulation of arrears toward water sector PPPs and electricity distribution companies, including through timely cash transfers from the Ministry of Finance to WAJ; and exploring the potential of buffer accounts designed to provision for payments to water sector PPPs. Together with the electricity sector, we will design a joint electricity-water multi-year strategy to avoid the accumulation of arrears and enable the efficient purchase of electricity by the water sector.

- *Adopting a Financial Sustainability Roadmap for the water sector*. Leveraging on the "Action Plan to Reduce Water Sector Losses", which has guided our recent reform efforts, we are conducting a comprehensive analysis of the sector's challenges and are preparing a Financial Sustainability Roadmap, in consultation with key stakeholders and with the support of our development partners, which will be completed by end-September 2021. The roadmap will provide a comprehensive analysis of the challenges that the sector faces in the aftermath of the pandemic and will outline a concrete set of actions needed to durably increase revenues and contain costs.

- *Addressing the water electricity nexus*. We will design a joint electricity-water multi-year strategy to arrest the accumulation of arrears by the water sector to electricity distribution companies and enable the efficient purchase of electricity by the water sector (e.g., set a ceiling on electricity tariffs charged to the water sector, study the possibility to connect water sector facilities such as pumping stations directly to NEPCO).

- *Subjecting all new projects to due process.* We will ensure that WAJ and the water sector fully adhere to the PPP law in procurement decisions and granting of government guarantees for all new PPPs; and that there is close coordination with the PPP, PIM, and FCCL units on project selection and vetting.

D. Structural Policies to Promote Jobs and Growth

29. We are committed to sustained job creation through broad-based labor market reforms, with a focus on measures to encourage formal, female, and youth employment. The COVID-19 shock has further exacerbated Jordan's labor market challenges. The unemployment rate has risen to 24.7 percent in 2020Q4, while last year's gains in labor market participation have reversed. In this context, we are working aggressively to:

- **Enhance gender equality and boost female labor force participation:**
    - The CBJ has made changes to existing regulations to explicitly prohibit gender discrimination in credit provision, with the view of enhancing access to financial services by female-owned SMEs.
    - The government has issued, albeit with some delay, instructions clarifying the modalities through which firms with employees, who in total have 15 or more children, are required to provide in-house or commercial daycare options. As a next step, the Ministry of Social Development will conduct a comprehensive legal and institutional review of the nurseries licensing process and design a revised regulatory and institutional model by December 2021.
    - The draft new Labor Law currently in parliamentary procedure tackles the issues of harassment and violence in the workplace and public spaces and removes existing restrictions for women to work in specific industries and professions.
    - The Ministry of Labor is working on a new legislation specifying acceptable working conditions in the agriculture sector, which will address specific challenges women face in this sector, such as low wages, lack of employment benefits, long working hours, and absence of appropriate occupational safety and health on farms.
    - The launch of the Amman Bus Rapid Transit (BRT) system later this year will provide female workers with a safe and dependable mobility solution.
- **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 existing initiatives under a single umbrella and on a strategy to transition the beneficiaries of the program into the labor market. The Technical and Vocational Skills Development Commission (TVSDC) will adopt a

national criterion for the accreditation of training curriculums and provide qualifications of training service providers.

- We will take stock of the impact of reduced social security contribution rates for start-ups hiring young workers in the agricultural and IT sectors and consider rolling out the same treatment to startups in all sectors.

- The National Empowerment and Employment Program (NEEP), which temporarily subsidizes the training of new hires, is working well and will be expanded over the next 2–3 years, potentially reaching over 30,000 job seekers.

- **Encourage formality.** We will conduct a study on job informality to identify the main characteristics of informal workers and the firms they work in, which will help shape policies to expand social security coverage. In April 2021, the Ministry of Labor changed regulations to allow the issuance of type of work permit for Syrian refugees that allow them to work in all sectors open to non-Jordanians without being tied to a specific employer and with freedom to move between employers and geographical areas. We will issue new instructions that will simplify work permit procedures for non-Jordanian skilled labor based on the ISCO-8 profession classification by end-September 2021.

30. A key pillar of our growth strategy is improving the business environment to foster investment and enhancing competition and export competitiveness:

- Given the limited fiscal space, public investment policies will focus on **better alignment of new investment projects with the priorities of the Government Reform Matrix**, as well as mobilizing private sector know-how and financing through public-private partnerships (see related discussion in the fiscal section). By the end of this year, we plan to bring to market important projects from the PPP pipeline, including the King Hussein Bridge Land Border Crossing Terminal and the interurban Amman-Zarqa bus rapid transit.

- **Streamlining permits, licenses, registration, and other transactions**:

  - The **"Investor's Journey,"** ongoing reform program seeks to prioritize Jordan's business-environment reforms from the perspective of the investor, covering registration, licensing, inspection, and advertising. The ISIC4 classification of economic activities has been adopted uniformly across all government entities and is being applied for newly registered entities. The amendments to the Vocational Licensing Law for the Greater Amman Municipality (GAM) are with parliament. Last year, we abolished licensing requirements for bookshops, cultural centers, and in the tourism sector.

  - We will implement the new **Property Values** Estimation Bylaw (No. 4 of 2019) to have pre-estimated values for land in Jordan, with the goal of reducing the time required for property valuation. Property value estimations will be completed for the Amman Directorates by the end of 2021 and the rest of Jordan by the end of 2022.

  - We are **fully automating the income and sales tax registration** process for new companies (including obtaining tax identification number and the VAT certificate), while the process of automating Social Security registration for new businesses is now complete.

- Following the passage of the amendments to the **Investment Law** currently tabled in parliament, we will prepare the necessary regulations on the non-fiscal investment incentives that replace the fiscal ones in the existing law. By December 2021, we will submit to parliament a new Investment Law, including amendments to re-establish Jordan Investment Commission as Jordan's Investment Promotion Agency, and amend relevant regulations pertaining to other impacted GoJ entities.

- Operationalization of the new **insolvency framework.** Following the 2018 amendment of the Insolvency Law and enactment of associated by-laws, we are in the process of training licensed insolvency practitioners and judges in best practices. We have already issued eight licenses for Insolvency Practitioners and aim to design customized training for judges by end-October 2021. Going forward, our priorities in this area include the establishment of the Insolvency Committee and the launch of an electronic insolvency registry.

- We will conduct by end-2021 an economic sector analysis that will result in a strategic plan for establishing for **consumer protection laws and competition policies**. We will work toward strengthening our competition regulatory framework with the assistance of international development partners.

- **Trade and transport facilitation.** We will establish the necessary regulations to ensure efficient, timely and smooth governmental procedures, and comply with Jordan's commitments under the WTO Trade Facilitation Agreement, such as pre-arrival procedures, advance ruling, acceptance of copies, and removing red tape and bureaucratic complications. To this end, we issued a new bylaw for implementation of the "Advanced Ruling" mechanism and will launch a new electronic portal by end of 2021, which will allow importers to apply and get approval for Advanced Ruling status for their goods. Jordan Customs will also continue to upgrade the infrastructure needed to fully leverage the National Single Window (including for all points of boarder entry), and launching a trade and trade related permit issuance system at Jordan Customs connected to the four licensing GoJ agencies. To facilitate transport and logistics, we are designing a strategy to reduce the oversupply in the highly fragmented trucking sector and provide incentives for fleet renewal and industry consolidation that will enhance the efficiency of cargo transport for containers in the Aqaba-Amman corridor.

31. Strengthening governance and increasing transparency remains a key pillar of our growth strategy. In line with the RFI commitments, we are continuously updating the government website of procurement contracts, including beneficial ownership of awarded entities, for COVID-19 emergency response spending. We have undertaken ex-post audits of all spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19 (see TMU para. 30), which will also assess the transparency of the procurement process and take stock of the publication of beneficial ownership of entities awarded such contracts since end-June 2020 and publish the results, but we expect the finalization of the report to take more time to ensure all requirements of the audit are met (SB reset to end-August 2021). We have hired an international firm to undertake a review of the most significant PPA, including to help identify any governance concerns related to the process of contracting and negotiating the PPA, and to confirm its consistency with Jordanian law; the review was completed and shared with Fund staff (prior action). In addition, we are working to strengthen the capacity of the Integrity and Anti-Corruption Commission, including to implement the amendments to the Illicit Gains Law currently tabled in parliament.

32. The abruptness and severity of the COVID-19 shock has underscored the importance of timely and accurate economic data in calibrating our policy response. In this regard, we will continue our efforts to increase the quality of primary statistics derived from annual industry surveys and ensure their consistency with the data compiled from quarterly surveys. The Department of Statistics (DOS) will publish, by end-June 2021, data on annual GDP for 2019 by the production and income approaches, and by end of the year by the expenditure approach, based on DOS annual data sources. Going forward, DOS will adhere to a regular publication and revision schedule that includes revisions to quarterly GDP based on annual GDP estimates. We will also publish explanatory articles and highlight large movements in data with economic rationale.

PROGRAM MONITORING

33. 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 December 2021 and June 2022 are PCs. IMF disbursements will be on-lent to the government during the program period. We signed the Memorandum of Understanding between the CBJ and the Ministry of Finance on responsibilities for servicing financial obligations to the IMF.

Table 1. Jordan: Proposed Quantitative Performance Criteria and Indicative Targets, December 2020–June 2022 1/

	Dec-20				Mar-21				Jun-21		Sep-21		Dec-21	Mar-22	Jun-22
	PC	Adjusted	Actual	Note	IT	Adjusted	Actual	Note	PC	Proposed Revised PC	IT	Proposed Revised IT	Proposed PC	Proposed IT	Proposed PC
							(in JD millions, unless specified otherwise)								
Performance Criteria															
Primary fiscal deficit of central government, excluding grants and net transfers to NEPCO and WAJ (flow, cumulative ceiling)	1,872	1,767	1,758	Met	366	399	67	Met	650	813	874	1,241	1,400	110	369
Combined public deficit (flow, cumulative ceiling)	2,406	2,300	2,285	[Met]	669	702	[171]	[Met]	1,088	1,175	1,489	1,744	2,132	237	650
Net International Reserves of the Central Bank of Jordan in USD million (stock, floor)	12,380	12,010	13,058	Met	11,754	11,281	13,195	Met	10,755	11,211	10,412	11,097	12,477	11,762	11,878
Ceiling on accumulation of external debt service arrears 2/	0	0	0	Met	0	0	0	Met	0	0	0	0	0	0	0
Indicative Targets															
Social spending by the central government (flow, cumulative floor)	804	804	883	Met	144	144	147	Met	289	308	605	691	943	127	259
Public debt (stock, ceiling) 3/	27,379	27,379	27,295	Met	27,383		27,589	Not met	28,256	28,557	28,624	28,915	29,289	29,839	30,737
Domestic payment arrears of NEPCO (stock, ceiling) 4/	55	55	70	Not met	16	16			0	0	0	0	0	0	0
Domestic payment arrears of WAJ (stock, ceiling) 5/	0	0	23	Not met	0	0			0	0	0	0	0	0	0
Domestic payment arrears of Aqaba, Miyahuna and Yarmouk Distribution Companies (stock, ceiling) 6/	0	0	88	Not met	0	0			0	0	0	0	0	0	0
Net Domestic Assets of the Central Bank of Jordan (stock, ceiling)	80	450	-110	Met	190	664	18	Met	769	797	910	876	591	1,131	1,159
SSC net financing to the central government (flow, ceiling)	548	548	415	Met	275	275	154	Met	550	328	800	450	772	216	381
Memorandum items for adjustors															
Foreign budgetary grants received by the central government (flow)	1,065		791		18		55		57	78	75	105	836	15	38
Foreign budgetary grants and loans received by the Central Bank of Jordan (USD millions, flow, cumulative from beginning of year)	2,906		2,412		616		143		883	687	1,180	975	3,118	50	248
Programmed stock of the combined health and energy arrears	467		420		452		443		422	422	407	407	326	316	306
Unbudgeted COVID-related spending (flow)			100				33								
Stock of checks issued by the central government but not yet cashed by the beneficiary	200		176		...		...		...	...	...	...	...	...	...

1/ Proposed quantitative performance criteria and indicative targets under the new 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: Status of Existing and Proposed New Structural Conditionality

Item	Measure	Time Frame (by end of period)	Status	Macroeconomic Rationale	Proposed Action
I. Prior Actions					
1	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.		Met	Governance and improved PFM	
2	Adopt a three-year plan, with frontloaded implementation starting no later than March 2022, that is revenue neutral for NEPCO, and that (a) reduces electricity tariffs for key business sectors; and (b) reforms the household tariff system to reduce distortions and generate savings in a progressive manner (prior action).		Met	NEPCO's financial viability and reducing cost of doing business	
II. Proposed New Structural Benchmarks					
1	MOF to complete, and share with Fund staff, an FAD-supported plan, encompassing both tax policy and administration, to implement recent and ongoing legislative reforms aimed at streamlining tax incentives, introducing place-of-taxation rules for GST, establishing economic substance requirements for special zones, enhancing transfer pricing rules, and brining ASEZA into a single tax administration and a single customs service.	Nov-21		Domestic revenue mobilization	
2	Minister of Finance to (i) issue a circular setting out timetable for elimination of the end-2020 stock of central government domestic arrears during 2021–22; and (ii) issue decision committing all central government entities to new procedures for purchases from the Jordan Petroleum Refinery Company to eliminate the incurrence of energy arrears in the future.	Jul-21		Eliminating domestic arrears	
3	Issuance of secondary legislation requiring the adoption of PIM appraisal documents for all new public investments and private-public partnership projects to ensure their proper management and selection.	Oct-21		Managing fiscal risks	
4	MOF to complete, and share with Fund staff, a study of the drivers of the public sector wage bill with recommendations on enhancing civil service efficiency and better aligning remuneration with that of market comparators.	Oct-21		Efficiency of public expenditure; reducing public-private wage premium	
5	Recruitment of four new division heads and four staff for new macro-fiscal unit at MOF.	Oct-21		Strengthen fiscal policy analysis capacity	

Table 2. Jordan: Status of Existing and Proposed New Structural Conditionality (continued)

Item	Measure	Time Frame (by end of period)	Status	Macroeconomic Rationale	Proposed Action
6	Cabinet approval of the amended Procurement Bylaw and related Instructions based on one year of implementation.	Dec-21		Transparency	
7	Roll out of new electricity tariffs, in line with plan in Prior Action 2 for subsidized and unsubsidized households; and for business sectors.	Mar-22		NEPCO's financial viability and cost of doing business	
III. Existing Structural Benchmarks (with due dates after first review)					
1	Submit to parliament an amended Investment Law that removes all Articles related to tax incentives, in line with TA recommendations.	Mar-21	Met	Address legal fragmentation and strengthen revenue mobilization	
2	Enact effective legislation to strengthen transfer pricing rules in line with international standards and IMF staff advice.	Mar-21	Not met. Implemented with delay.	Protect against tax base erosion and profit shifting	
3	Introduce into the GST Law "place-of-taxation" rules for GST in line with international best practices.	Apr-21	Not met[1]	Increase efficiency of GST and improve tax compliance	Completion date to be reset to Jul-21
4	Sign digital track and trace commitments with three largest cigarette companies.	Feb-21	Met	Revenue mobilization	
5	Approval by the CBJ Board of guidelines for implementation of the Emergency Liquidity Assistance (ELA) framework provided for in the CBJ Law.	Jun-21		Strengthen lender of last resort function of the CBJ	
6	Undertake ex-post audits of all crisis-mitigating inflows and spending, which will also assess the transparency of the procurement process and take stock of the publication of beneficial ownership of entities awarded such contracts since end-June 2020, and publish the results.	Jun-21		Governance and fiscal transparency	Completion date to be reset to Aug-21
7	Approve legislation to introduce Economic Substance Regulations for all special economic zones.	Feb-21	Met	Strengthen tax compliance management	
8	Issue by-laws and/or instructions aimed at increasing access to affordable childcare.	Dec-20	Not met. Implemented with delay.	Labor market	
9	Publication of a regular Financial Inclusion Report and a follow-on Financial Inclusion Action plan for 2020–21.	Mar-21	Met	Financial Development	

[1] Suggested to be reset to July 2021, due to a delay in the IMF TA which was delivered in mid-April.

Table 2. Jordan: Status of Existing and Proposed New Structural Conditionality (concluded)

Item	Measure	Time Frame (by end of period)	Status	Macroeconomic Rationale	Proposed Action
10	Submit to parliament amendments to existing legislation to allow greater public access to basic financial disclosure information by public officials.	Dec-20	Met	Governance	
11	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.	2nd phase Dec-20	Met	Revenue mobilization	
12	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.	Jan-21	Met	Fiscal transparency and budgeting	
13	Implement the Digital Volume Verification System (track-and-trace system) to monitor tobacco production and reduce cigarette smuggling.	Jul-21		Revenue mobilization	
14	Pass legislation to impose a single tax administration and a single customs service for Jordan, bringing ASEZA participants under ISTD and Customs national control.	Mar-21	Not met	Strengthen tax compliance management	Completion date to be reset to Sep-21
15	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.	Mar-21	Not met. Implemented as PA	Governance and improved PFM	New prior action
16	Adopt a three-year plan, with evenly-phased or frontloaded implementation starting in 2021, that (a) redirects electricity subsidies only to those who most need them; and (b) uses part of the achieved savings to reduce electricity tariffs for key business sectors, while containing NEPCO losses.	Mar-21	Not met. Implemented as PA.	NEPCO's financial viability and reducing cost of doing business	New prior action

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 June 17, 2021. The exchange rates and gold price for the purposes of the program are shown in the table below. 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.

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 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

(continued)

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.

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

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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.

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). It is equivalent to the cumulative change from the level existing on December 31 of the previous year in the stocks of government debt 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 50 percent of the shortfall.

27. Upward by the extent to which foreign budgetary grants received by the central government (as **specified** in Table 1 of the MEFP) during the relevant period exceed the levels specified in Table 1 of the MEFP, up to a maximum of 50 percent of the overperformance. For the end-December 2021 QPC, the 50 percent limit specified above will not apply to the first US$200 million in overperformance in grants (the applicable limit for which will be 100 percent) deployed for protecting the livelihoods of workers severely affected by the pandemic (which is spending not covered under paragraph 30 of the TMU).

28. 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).

29. 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.

30. For 2020 and 2021, 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 budget allocations), with amounts and the nature of expenses reported to staff monthly. For 2021, 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

31. 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.

32. 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.

33. 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 (vi) capital expenditures.

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

35. 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 50 percent of the shortfall.

36. Upward by the extent to which foreign budgetary grants received by the central government (as **specified** in Table 1 of the MEFP) during the relevant period exceed the levels specified in Table 1 of the MEFP, up to a maximum of 50 percent of the overperformance. For the end-December 2021 QPC, the 50 percent limit specified above will not apply to the first US$200 million in overperformance in grants (the applicable limit for which will be 100 percent) deployed for protecting the livelihoods of workers severely affected by the containment measures (which is spending not covered under paragraph 39 of the TMU).

37. 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).

38. 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.

39. For 2020 and 2021, 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 budget allocations), with amounts and the nature of expenses reported to staff monthly. For 2021, 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

40. 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.

41. **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.

42. **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.

43. The stock of foreign assets and liabilities of the CBJ shall be valued at program exchange rates. As of December 30, 2020, the stock of NIR amounted to USD 13,058.2 million (at program exchange rates).

44. **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 issuance (assumed under the program in the third quarter of 2021 for $0.5 billion), the floor of the NIR for end-September 2021 will be adjusted downward by the programmed amount, if the issuance is delayed to the fourth quarter of 2021. 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

45. **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

46. **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 and other entities' social protection programs; and (iii) the school feeding program.

G. Ceiling on Public Debt

47. **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.

48. **Adjustors:** The ceiling on public debt for end-December 2021 and end-June 2022 will be adjusted:

49. 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

50. 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 17.

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

51. 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 17.

J. Ceiling on the Net Domestic Assets of the CBJ

52. 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.

53. 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.

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

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

56. 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

57. 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.

58. 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:

59. 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.

60. 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).

61. 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).

62. Related to central government arrears:

63. 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.

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

65. Related to the combined public sector deficit:

66. All the information specified in paragraph 33.

67. 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.

68. 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.

69. 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.

70. 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.

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

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

73. 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).

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

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

76. CBJ's monthly FX interventions in the interbank market.

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

78. Monetary statistics (monthly).

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

80. Banking FSI (quarterly; starting 2021 Q1)

81. Related to the continuous performance criteria:

82. 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.

83. Related to the floors on public debt:

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

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

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

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

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

89. Other economic data

90. 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).

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

92. 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).

93. National accounts statistics (quarterly).

94. 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

95. 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.

Statement by the Staff Representative on Jordan
Executive Board Meeting
June 30, 2021

This statement updates on the implementation of two structural benchmarks (SBs) that were due by end-June 2021, and which were met following the issuance of the Staff Report for the Second Review Under the Extended Fund Facility. The new information does not alter the thrust of the staff appraisal and reaffirms the authorities' strong commitment to the program.

Ex-post audit of COVID spending. On June 24, the authorities met the SB related to undertaking and publishing ex-post audits of all crisis-mitigating spending directly related to efforts to prevent, detect, control, treat and/or contain the spread of COVID-19 (MEFP paragraph 31, Table 2, existing SB #6). This covers JD 100,123,837 of spending from the authorities' COVID Fund during 2020.[1] With regard to the procurement process, the audit noted that the bulk of the purchases happened exclusively through competitive tenders, with rare cases of direct awards due to the exceptional circumstances at that time. The audit also assessed the transparency of the procurement process and took stock of the publication of beneficial ownership information of entities awarded contracts since end-June 2020.

Guidelines for Emergency Liquidity Assistance (ELA). On June 29, the authorities met the SB related to approval by the Central Bank of Jordan (CBJ) Board of guidelines for implementation of the ELA framework provided for in the CBJ Law. The guidelines were prepared in consultation with Fund staff, and will serve to strengthen the lender of last resort function of the CBJ.

[1] The audit was conducted by PKF Jordan (who were selected through a competitive tender), and is available at https://www.mof.gov.jo/EBV4.0/Root_Storage/EN/CORONA/1454_001.pdf. The Government of Jordan maintains a dedicated webpage (https://www.mof.gov.jo/EN/Pages/PRIME_MINISTRY_ANNOUNCEMENTS_AND_CIRCULARS) where information on COVID spending is reported.

Statement by Mahmoud Mohieldin, Executive Director for Jordan, Ali Alhosani, Alternate Executive Director for Jordan, and Maya Choueiri, Senior Advisor for Jordan
June 30, 2021

1. On behalf of our Jordanian authorities, we would like to express our deep appreciation for the Fund's Executive Board, management, and staff for their continued support. We particularly appreciate staff's hard work and constructive engagement, as well as the valuable capacity development that multiple Fund departments are providing in support of Jordan's stabilization and reform efforts.

Recent Developments

2. As a small, open economy that is highly connected to the rest of the world, Jordan continues to experience unprecedented social and economic challenges due to the COVID-19 pandemic. The pandemic had a particularly severe impact on the services sector, a key sector of growth for the Jordanian economy, affecting travel receipts, tourism, and remittances. Early success in containing the spread of the pandemic was challenged by two subsequent waves, which amplified the human and economic toll. As a result, unemployment rose to an all-time high at end-2020, with over half of younger job seekers being out of work. The authorities' rapid and targeted policy responses to the pandemic helped to cushion its impact while preserving macroeconomic stability. Since our discussion in December 2020, the Government and the Central Bank of Jordan (CBJ) have taken additional targeted and temporary stimulus measures to mitigate the impact of the recent COVID-19 surges on the economy.

3. Going forward, the Jordanian Government and the Central Bank of Jordan (CBJ) remain fully committed to the objectives of their EFF-supported reform program, namely preserving debt sustainability and external buffers, maintaining monetary and financial sector stability, and advancing structural reforms to achieve higher and more inclusive growth, while protecting the poor and the most vulnerable. Jordan continues to host 1.3 million Syrian refugees, a very large share of the country's population. Jordan is doing all it can to prevent the pandemic from adding to the refugees' difficulties and has allowed equitable access to its vaccination program to both citizens and refugees. Continued generous and timely support by the international community will enable Jordan to continue shouldering the burden of hosting the Syrian refugees.

Performance under the Extended Fund Facility (EFF)

4. Despite the added challenges posed by the pandemic, the authorities have shown strong commitment to Jordan's EFF-supported program and full ownership of the program. The program is one of the Fund's most structurally concentrated, reflecting the

authorities' firm commitment to pushing through meaningful reforms, notwithstanding the difficult domestic and regional environments. Performance under the EFF remains resolutely strong, with all quantitative performance criteria and most indicative criteria met. Moreover, eleven structural benchmarks were met under this second review, two with delay and two as prior actions. This includes streamlining the granting of tax incentives and closing tax loopholes, publishing regular information on COVID-19-related spending, and carrying out an IMF Fiscal Transparency Evaluation. The Government has also completed a comprehensive review of the most significant power purchase agreement and adopted a determined three-year electricity tariff reform plan.

5. Eleven structural benchmarks under one review is a very large number, particularly in the midst of a pandemic, at a time when the Government's and CBJ's efforts need to be focused on addressing the health, social and economic implications of the pandemic. It would be desirable that future conditionality be streamlined and comparable to other Fund-supported EFF programs.

6. The pandemic has increased Jordan's external financing needs by about US$1.1 billion in 2021–22, underscoring the criticality of continued donor financing, including to support Syrian refugees. Along with additional multilateral, bilateral, and private market financing, the authorities have requested an augmentation of the program by about US$200 million.

Fiscal Policy and Reforms

7. The Ministry of Finance's (MOF) fiscal strategy demonstrates its firm commitment to the program's macroeconomic stability and debt sustainability objectives. Its response to the pandemic has been timely and commensurate while being mindful to limit the erosion of key fiscal buffers. In this connection, it very much welcomes staff's assessment that Jordan's public debt is sustainable with continued strong policy implementation. The MOF's response to the pandemic was also mindful to target the poorest segments of the population and the vulnerable. The fiscal strategy is indeed anchored in equitable tax reforms aimed at closing tax loopholes and combating tax evasion to create fiscal space for higher social protection spending.

8. Domestic revenues declined by 9.4 percent in 2020 relative to 2019, led by a pandemic-related collapse in nontax revenues. However, this deterioration would have been much more pronounced and the fiscal deficit much larger if it weren't for the ambitious tax policy agenda that Jordan implemented despite the ongoing pandemic. With careful attention to equity concerns, instead of raising marginal tax rates, the tax policy agenda targeted anti-smuggling measures for tobacco products and the reduction of sales tax and customs exemptions. Importantly, it continued a robust anti-tax evasion

effort that has already helped identify significant under-reported tax liabilities and key loopholes used in tax avoidance. As a result of the is ambitious tax strategy, notably the strong revenue mobilization efforts, Jordan is probably one of the few countries that can expect an increase in its tax revenues in 2021. As a result, total revenues in 2021 are not only expected to exceed their 2020 level and the 2020 budget projections but also their 2019 pre-pandemic level, an achievement in the midst of a pandemic.

9. In February, Parliament approved a 2021 budget that is consistent with the EFF targets. To offset the pandemic-related deterioration in the fiscal accounts, the Government postponed non-priority capital investment and temporarily reduced the pay of cabinet members and senior government officials. Other benefits for higher-paid employees were suspended, and a hiring freeze for new positions in government entities and state-owned enterprises was instituted.

10. Despite the pandemic, the authorities carried out a comprehensive tax policy legislative agenda. In line with Fund technical assistance (TA) recommendations, the Government submitted to Parliament amendments to the 2014 Investment Law to eliminate all articles related to preferential tax treatment. To protect against tax base erosion and profit shifting, Parliament approved a law to strengthen transfer pricing rules, in line with international standards and Fund staff advice. Parliament also approved legislation to introduce economic substance regulations for all special economic zones. This regulation, coupled with the recent signing of the Convention on Mutual Administrative Assistance in Tax Matters, allowed Jordan to be taken off the EU "Gray" List of non-cooperative jurisdictions for tax purposes.

11. Going forward, fiscal policy will continue to balance the need to support the recovery in the near term and maintain debt sustainability. In addition to virus containment measures, to ensure adequate space to support the weaker recovery, protect jobs and address record-high unemployment, fiscal targets for 2021 will be eased while preserving debt sustainability. The Government will also persevere with important fiscal structural reforms as detailed in the Memorandum of Economic and Financial Policies. These reforms will aim to strengthen tax policy and tax administration capacity, ensure the adequacy and efficiency of social safety nets, as well as contain the public sector wage bill and ensure its efficiency. The Government will also pursue its ongoing efforts to strengthen public financial management, fiscal transparency, and fiscal risks management, as well as to improving investment quality.

Monetary and Exchange Rate Policies and Reforms

12. The CBJ continued its strong track record of skillful monetary policy management, which is anchored by the peg to the US dollar, by maintaining financial stability and preserving its international reserve buffers. The peg has served the Jordanian

economy well and helped to preserve market confidence and avoid any potential de-anchoring of inflation expectations. At the onset of the pandemic, the CBJ provided sizeable and timely liquidity, of about 8 percent of GDP, to the market and support to heavily impacted sectors. These measures were successful in supporting credit growth to the private sector, thus allowing firms, including small and medium-sized enterprises (SMEs), to remain in business and keep employees on the payroll. In March 2021, the CBJ temporarily expanded the size of its subsidized lending program to JD 700 million, from JD 500 million. It also extended to end-2021 the deferment on debt repayments by affected borrowers to banks. These measures will continue to help keep workers employed, businesses afloat, and credit flowing, despite the economic contraction. At the same time, the CBJ maintained a comfortable level of international reserves and will continue to target a reserve coverage that exceeds 100 percent of the Fund's ARA Metric.

13. The CBJ has a strong and effective prudential and supervisory framework, which has helped to maintain the system's financial soundness and resilience. Since our last discussion, Jordan's banking system has remained liquid and well-capitalized. While providing needed support to the economy, the CBJ was also keen to limit the erosion of key financial buffers. In this connection, it did not relax its regulatory requirements and took the important prudential measure to require banks not to pay out their 2019 dividends. It also limited the 2020 dividend payouts to 12 percent of banks paid-in capital. As a result, at end-2020, the banking system's capital adequacy ratio remained at 18.3 percent, well above the regulatory minimum of 12 percent.

14. Although non-performing loans are low and the coverage ratio increased at end-2020, the CBJ will remain vigilant as it recognizes that the full impact of the crisis on asset quality is yet to unfold. The CBJ will closely monitor and address risks in the banking system, leveraging its strong prudential and supervisory framework. This includes the CBJ's rigorous accounting, reporting, and provisioning practices, the regular stress tests that it conducts, and the strict provisioning requirements that it imposes on banks. At the same time, the CBJ is strengthening further the legislative and regulatory framework for banks.

15. The CBJ is committed to continuing to enhance the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. With Fund assistance, the CBJ has completed a National Risk Assessment, which has contributed to strengthening the draft AML/CFT law and to ensure that it is fully in line with Financial Action Task Force (FATF) standards. With support from Fund technical assistance, the CBJ has also amended its regulations to ensure better conformity with FATF standards and has requested follow-up Fund TA to continue strengthening the AML/CFT regime.

16. The CBJ launched initiatives to develop the nonbank financial sector, notably the insurance sector and microfinance institutions, which will contribute, in turn, to financial

deepening. It is also carrying reforms to facilitate access to finance that will help broaden the reach and usage of financial services. The CBJ is grateful to the Monetary and Capital Markets Department for the very helpful TA and has requested follow-up assistance on the different components of banks excess liquidity. It also requested a Financial Sector Assessment Program (FSAP) update in 2022.

Other Structural Reforms

17. The Jordanian authorities are keenly aware that the speed of Jordan's economic recovery in the medium-term depends on continued implementation of structural reforms given their importance for boosting growth and employment. Jordan has made progress on foundational reforms that aim to improve the environment for public and private investment and contribute to job creation and economic growth. These reforms are anchored in a Five-Year Reform Matrix, which was developed in collaboration with the World Bank and other multilateral and bilateral development partners and is now part of the new Government Indicative Executive Program 2021–24.

18. Labor market reforms aimed at encouraging formal, female, and youth employment rank high on the Government's agenda. Measures are being taken to address public-private sector wage differentials and to enhance gender equality in the labor market, including through flexible working arrangements, affordable and safe transportation, removal of gender differentiation in labor regulations, and child daycare. The Government is also seeking to increase youth labor force participation by strengthen vocational education and training and promoting apprenticeships and traineeships programs to acquire skills on the job.

19. Strengthening governance is another priority area, and the Government is continuously updating the website of procurement contracts and has undertaken ex-post audits of all COVID-19- related spending, in line with its Rapid Financing Instrument commitments. Moreover, the authorities are strengthening the anti-corruption legal framework and capacity of the Integrity and Anti-Corruption Commission, including to implement the amendments to the Illicit Gains Law currently tabled in Parliament.

20. Electricity sector reform is at the core of the authorities' growth agenda. The Government is actively seeking to contain the losses of the electricity company NEPCO, which are expected to increase starting in 2022, mainly due to the coming on-stream of a domestic oil shale project. In this context, the Government is pursuing a comprehensive strategy to restore NEPCO to financial viability over the medium term, which will encompass reforms to raise revenues, including accounting for any revenue losses in the wake of COVID-19; and to reduce costs further.

21. Realizing that the existing system of electricity tariffs was not aligned with Jordan's growth and employment needs, the Government also adopted a front-loaded three-year electricity tariff reform plan which reduces electricity subsidies to households in a progressive manner. The plan also reduces the high costs of electricity for selected business sectors, where these costs are a key impediment to job creation or competitiveness. The reform to household tariffs was designed to be progressive from the first year of implementation, and it will be refined in the latter years of the electricity reform plan to further improve progressivity. As part of the reform, an effective and credible appeals mechanism will be set up to minimize exclusion errors and protect the vulnerable. The reform will also be supported by a robust communication plan. The Government would like to thank the Fiscal Affairs department for its diligent work in supporting the finalization of the electricity sector tariff reform.

Conclusion

22. The Jordanian authorities value the strong relationship with the Fund and look forward to continued policy dialogue and engagement. They have shown strong ownership and commitment to the EFF-supported program, and program implementation has also been strong. They remain fully committed to the EFF program's objectives, notably to maintain macroeconomic stability and persevere with economic reforms while protecting the most vulnerable segments of the population.